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Rapidly Emerging Regional Integration Systems: Implications for the Asian Developing Countries and Possible Policy Responses

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The views expressed in this study are those of the author and do not necessarily reflect the views of the UNCTAD secretariat. The terminology is also that of the author.

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RAPIDLY EMERGING REGIONAL INTEGRATION SYSTEMS: IMPLICATIONS FOR ASIAN DEVELOPING COUNTRIES AND POSSIBLE POLICY RESPONSES

I. INTRODUCTION

1. Two major parallel trends characterize the present global trading system: multilateralism and regionalism. The successful conclusion of the Uruguay Round has ensured the world's continuing march towards trade and investment liberalization within a multilateral framework. However, regional integration efforts, which were fueled to some extent by pessimism over the future of the GATT before the Round's conclusion, appear to have intensified even further since 1993. This situation creates the need to assess the impact of deepening and expanding regional integration systems on Asian developing countries within the context of the multilateral global trading system that has emerged with the Uruguay Round Final Act and the WTO.

2. It has also become imperative to focus on the impact of these trends on Asian developing countries as external trade becomes a more important factor in economic development. The globalization of business operations, the opening up of markets and the rapid advances in technology have all contributed to the declining relevance of national borders for enterprises, in terms both of penetrating markets and of evading competition from foreign goods and service providers. The concept of trade liberalization has also expanded to include the various modes of international trade in services -- one of which, commercial presence, refers to investments. As external trade increasingly becomes more important for enterprises and national development, the impact of international trade arrangements on market access and competitiveness cannot any more be ignored.

3. Together with the liberalization of trade in goods and services, a host of new issues that have come under the umbrella of global and regional trading systems confronts developing countries. Among these are trade-related issues connected with intellectual property rights, investment measures, labor standards and environmental management. Such issues, which involve various aspects of national policy other than external trade, have introduced greater complexity in the process of trade negotiations at all levels -- multilateral, regional and bilateral -- which developing countries are only beginning to appreciate. These issues, which also form part of regional integration processes, also need to be examined in the context of developing countries' continued efforts to harness the global market for their own development.

4. An analysis of the impact of regional integration systems on Asian developing countries needs to take into account the great diversity among economies within this grouping.[1] It includes small states like Maldives and Singapore as well as the two most populous countries in the world, China and India. It includes relatively wealthy economies such as Singapore and Hong Kong (whose per capita GNP exceed US$15,000) and very poor countries like Cambodia, Bangladesh and Nepal. Levels of exports and export orientation of economies

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[1] The term "Asian developing countries" as used in this paper covers the following 22 entities: Afghanistan, Bangladesh, Bhutan, Cambodia, People's Republic of China, Hong Kong, India, Indonesia, Republic of Korea, Lao People's Democratic Republic, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Singapore, Sri Lanka, Taiwan Province of China, Thailand and Vietnam.

vary, with East Asian Newly-Industrializing Economies (NIEs) leading the way. [Refer to Table 1.]

5. Almost half of the countries in the grouping are not members of the WTO, while several are part of one or more regional integration arrangements: APEC, AFTA and SAARC. [Refer to Table 2.] AFTA and SAARC are groupings of developing countries while APEC includes both developing and developed economies. As a consequence, special attention will have to be paid to non-APEC member Asian developing countries, which are exposed to possible trade diversion effects, depending on how APEC develops as a regional integration arrangement.

II. MAJOR REGIONAL INTEGRATION SYSTEMS AND TRADE FLOWS IN THE 1980s AND 1990s

6. The existing major regional integration systems (EU and NAFTA) and an emerging arrangement (APEC) account for large portions of global trade. Concern about trade and investment diversion as a result of such integration efforts has emerged with the growing importance of intra-regional trade among the members of these groupings in the 1980s and 1990s. Intra-regional trade accounts for about 75% of total trade for APEC, 60% for the EU and 40% for NAFTA. This growth has been much higher in the case of the APEC economies, though it has not obviously been a consequence of any regional integration effort. (APEC was established in 1989 and has not yet begun implementing any regional integration scheme.) In the case of NAFTA intra-groupings exports grew between 1990 and 1994 from 41 to 48 per cent, the import share from 33 to 37 per cent (partially due to the Canada-US Free Trade Area, which came into effect in 1988, partially already due to NAFTA which became operational at the beginning of 1993). Within the EU, intra trade gained steadily in importance over the 1980s, partially due to the accession of the new member Sttes Greece, Spain and Portugal. The EU import share rose from 54 per cent in 1980 to 63 per cent in 1987, the export share from 61 per cent to 66 per cent in 1990. After a period of stabilization, these intra-trade shares contracted since to the levels of 60 an 62 per cent respectively in 1993 and 1994 partly due to depressed volumes of imports affecting regional suppliers more than others but partly also due to a change in EU's reporting system for intra-trade from customs-based to survey-based statistics).

7. NAFTA and the EU are important to developing Asian countries as export markets. As a whole, developing Asian countries are dependent on NAFTA and the EU for almost 40 per cent of their total exports. However, NAFTA and the EU together supply only less than a third of developing Asian countries' total imports. NAFTA's share in this group's total exports has increased from 18% to 23% between 1980 and 1993, while the EU's share remained stable at about 16% during the period. The share of both trading partners in Asian developing countries' total imports, on the other hand, declined slightly during the same period, with NAFTA's share going down from 17% to 14%, and the EU's remaining stagnant at 14%. [Refer to Table 4 and Figures 3 and 4.]

8. The economies of non-APEC member Asian developing countries depend largely and increasingly on the APEC and EU markets for trade. In 1993, the combined APEC and EU markets received 78% of their exports (up from 65% in 1980), and supplied 70% of their

imports (compared to 57% in 1980). [Refer to Table 5.] This increased dependence on APEC and EU markets has also been fostered by the rapid deterioration of trade with Russia (owing to the Soviet Union's collapse), which in 1980 had accounted for a major portion of their trade (over 13% of their exports and 6% of their imports) as a group.

9. A striking feature of non-APEC Asian countries' trade in the 1980s and early 1990s is their increasing dependence on the EU and NAFTA markets for exports in order to pay for rapidly growing imports from East Asia and ASEAN. Since the mid-1980s, the importance of East Asia and ASEAN as an export destination for these countries has considerably declined, while the EU has become the largest export market and NAFTA's share in their exports has increased considerably. [Refer to Table 5 and Figure 5.] As a source of imports, however, East Asia, ASEAN and the Australia-New Zealand Closer Economic Relations (CER) claimed a rapidly rising share (from 20% in 1980 to 37% in 1993), while the EU's share remained stagnant and NAFTA's actually declined. [Refer to Table 5 and Figure 6.]

10. One major difference between APEC members and non-APEC members among Asian developing countries is the varying degrees of vulnerability to the risks posed by regional integration schemes. The Asian APEC members -- the ASEAN and East Asian developing countries - are much less vulnerable than the non-APEC members. First, the former are much less trade dependent on the EU than the latter. Second, the Asian APEC member countries engage in a high degree of intra-regional trade (about half of their total trade), while intra-regional trade among the non-APEC Asian developing countries compose only 2 per cent of their total trade. Third, Asian APEC members can use their membership in APEC to secure a large part (over 70%) of their total trade which is within the grouping. [Refer to Table 6 and Figure 7.]

III. REGIONAL INTEGRATION SYSTEMS AND THE URUGUAY ROUND

A. Major Developments

11. The past few years witnessed dramatic developments in regional integration systems in Europe, North America and Asia. Among these major developments are the following:

The Move to a Single European Market

12. In 1985, the Community identified 280 items of legislation that would remove internal physical, technical and fiscal barriers. The EU's Single Market became a reality in 1993. The harmonization of national trade measures simplified access of products from third countries to the whole EU market. However, it also opened the door to trade diversion as barriers for goods and services providers from within the EU are eliminated. More significantly, the move towards the Single Market has also resulted in increased trade barriers for certain products from third countries.

13. As a consequence of the Single Market Programme, higher tariffs have been imposed on a few products such as canned fish, bananas and motor vehicles. Greater tariff escalation in certain industries such as leather, tobacco, textile, metals and electronics has placed third

country suppliers of higher-value products in these areas at a disadvantage. Certain Community-wide quotas or VERs, which have replaced various national import restriction measures, are perceived as having increased restrictions on specific products, such as car exports from Japan.

The Expansion of the EU

14. The accession of Finland, Austria and Sweden in 1995 added 23 million to the EU's total population and resulted in certain trade policy changes. The three countries adopted the EU's Common Customs Tariff, which led to modifications of bound MFN tariff rates and applied GSP rates for developing countries. They also adopted the EU's non-tariff measures, including import quotas and VERs, as well as the CAP,[2] the EU's anti-dumping measures, and the association and cooperation agreements between the EU and third countries.

15. The EU remains open to further expansion of its membership in the future. The European Economic Area between the EU and EFTA (which today include Iceland, Liechtenstein, Norway and Switzerland) is considered a transition arrangement towards the long-term enlargement of the EU. The EU has concluded agreements with Central, Eastern and Southeastern European states, which open the way to future membership.[3] Turkey, Malta, Cyprus, Hungary, Poland, Romania and Slovakia have already applied formally for membership. Nevertheless, given the difficulties encountered by the Community with the entry of Spain, Portugal and Greece, it is highly unlikely that the EU can absorb most of these countries in the near future.

16. Developing countries are concerned about the trade and investment diversion effects of the expansion of the EU, especially in the areas of agriculture and labor-intensive manufactures. These concerns are heightened by the fact that the EU has expressly limited future membership to European countries, although the possibility of association and free trade agreements remains open to any country. Nevertheless, the varying degrees of economic integration between full members and non-members could continue to have trade and investment diverting effects.

The Expansion of Special Arrangements between the EU and Other Countries

17. The EU has several agreements with other countries that could have trade and

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[2] Although the adoption of the CAP by the three new member states – where protection for agricultural products were relatively higher – will result in reductions in agricultural prices, developing country exporters of agricultural products in these markets will face greater competition from EU suppliers who will gain unrestricted access to the Austrian, Finnish and Swedish markets.

[3] Europe Agreements were concluded with the Czech Republic, Slovakia, Hungary, Poland, the Baltic States, Romania and Bulgaria, while negotiations with Slovenia are under way.

investment diversion effects. The EU has association agreements with Turkey, Cyprus and Malta that are designed to lead to the establishment of customs unions with the Community.[4] Its Europe Agreements with Central, Eastern and Southeastern European countries provide for the mutual lowering of tariff and non-tariff barriers, which will be faster on the side of the EU. Liberalization of MFA quotas on textile and garment imports from these countries were also accelerated after the Uruguay Round.

18. The EU also has a network of cooperation and association agreements with Mediterranean countries (except Libya). These agreements, dating from the 1960s and early 1970s, are planned to be developed under the new EU-Mediterranean Partnership into a vast free trade area over the long-term, through trade and investment liberalization supported by development cooperation schemes. The EU has already begun the negotiations with Egypt, Morocco and Tunisia on the establishment of a free trade area. It already has a free trade arrangement for industrial products with Israel. It has begun discussions with MERCOSUR on trade and economic cooperation designed to lead to an interregional association agreement.

The Establishment and Expansion of the NAFTA

19. NAFTA, which was established by the US, Canada and Mexico, and entered into force in 1994, provided for progressive liberalization of merchandise trade among its member countries. Tariffs on various products of North American origin were immediately removed, while those on "sensitive" items are to be phased out over up to 15 years. All quotas, import licenses and customs user fees were subjected to either immediate or eventual elimination. Textile and apparel quotas are to be phased out over 10 years.

20. Aside from liberalization of merchandise trade, NAFTA covered new areas. It liberalized trade in various services, investment policies (through the granting of MFN and national treatment and the elimination of trade-related investment measures) and government procurement, strengthened intellectual property rights protection and competition law, and elaborated dispute settlement procedures. Labor standards and environmental protection issues were also covered in side agreements.[5]

21. Developing Asian countries' concern about NAFTA centers on several issues. The entry of Mexico, a developing country producing goods similar to those being exported by other developing countries to the US, presents the prospects of trade diversion at the expense of many Asian developing countries. The stringent rules of origin, especially in textiles, apparel, automotive parts and certain electronic components, as well as the liberalization of

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[4] The EU has already agreed to implement a customs union with Turkey, and is open to the possibility of accession for Cyprus and Malta.

[5] The Supplemental Agreement on Labor Cooperation obliges member states to enforce labor laws through "appropriate government action" and to provide "high labor standards." The Supplemental Agreement on Environmental Cooperation commits them to a high level of environmental protection and to the enforcement of national environmental laws.

cross-border trucking will favor Mexican over non-NAFTA products in the US market. The liberalization of investment rules and trade in services, aside from more favorable access to the North American market, will also give Mexico greater advantages in competing for investments from the US and other developed economies.

The expansion of NAFTA has begun with negotiations over Chile's membership. At the same time, there are already proposals to start negotiating with other countries and groupings in Latin America, Asia and Europe for membership in the free trade area.[6] One such possibility that is being considered is the establishment of a Trans-Atlantic Free Trade Area (TAFTA) that would link NAFTA with the EU. While it will probably take some time for such negotiations beyond Chile's entry into NAFTA to start if they do materialize, it is clear that the US, considering that the prospects for a next round of multilateral trade negotiations starting in the immediate future are not good, is looking at regional and trans-regional free trade agreements as one way of achieving trade policy goals that were not satisfied by the outcome of the Uruguay Round.

22. Unlike the EU, NAFTA is open to the inclusion of countries outside North America, which the open-accession clause governing the eligibility of future NAFTA members allows, and which was the Bush Administration's original intent.[7] The US is already pushing for the expansion of NAFTA to an FTAA including other countries in the Western Hemisphere, and for a similar set of agenda in APEC. Thus, inclusion in an inter-regional integration system remains a possible long-term option for Asian developing countries as a means of ensuring continued access to the NAFTA market.

The Move towards the FTAA

23. In December 1994, the US, Canada and Latin American countries agreed to establish the FTAA by 2005 that will not only remove barriers to merchandise and services trade but also cover liberalization of capital markets, investments and government procurement, strengthen protection for intellectual property rights and enhance competition policy. The American leaders envision the free trade area to develop out of linkages among existing regional groupings such as NAFTA, the Andean Group, the CACM, the Caribbean Community and MERCOSUR, and the gradual extension of membership in these groupings to new members.

24. The prospects for the achievement of an FTAA have improved in the past several years. The inclusion of Mexico in NAFTA and the eventual accession of Chile have started off the development of mixed membership in regional trade arrangements. The liberalization

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[6] One such proposal, known as *NAFTA Plus*, has been made by Paula Stern, a member of President Clinton's Advisory Committee on Trade Policy and Negotiations and former Chairperson of the US International Trade Commission, in a written statement entitled *NAFTA Plus: Keeping Trade on Track to Help Americans Prosper* submitted to the Subcommittee on Trade of the Committee on Ways and Means of the US House of Representatives.

[7] Stern, p. 14.

of mutual trade within the various Latin American groupings as well as trade and investment policy reforms being undertaken unilaterally or as part of Uruguay Round commitments by individual countries are expected to facilitate the acceptance of such a free trade area.[8]

The Development of APEC

25. APEC, which was established in 1989, underwent rapid progress as a result of its member countries' decision to hold a series of Economic Leaders' Meetings. Between its founding in 1989 and the Economic Leaders' meeting in Seattle in 1993, APEC focused on organizational issues. The APEC Economic Leaders' Vision Statement, which came out of the 1993 Seattle summit, called for the liberalization and facilitation of regional trade and investment and on enhancing regional cooperation. The 1994 APEC Economic Leaders' Declaration of Common Resolve, which was the result of the Bogor Summit, accepted the Eminent Persons Group's (EPG) proposal for APEC to move towards the goal of free and open trade and investment by 2020 in the region through liberalization and facilitation programs.

26. With the task of formulating the vision and the goals for APEC completed after the Seattle and Bogor summit meetings, the more difficult task of agreeing on the detailed proposals to implement these decisions has begun. The Osaka summit of APEC is expected to draw up a detailed agenda for action. However, various difficult issues need to be resolved, such as the mechanics, extent and scope of liberalization, the interpretation of "Open Regionalism," and the institutionalization of APEC.

27. However, APEC may differ markedly from other regional trade arrangements. Current proposals envision either a "concerted unilateral approach," which would allow member countries to move independently toward free trade and investment within the given time frame, with APEC serving as a coordinating mechanism for this process, or a "collective action" approach, where specific areas for APEC-wide liberalization are clearly defined on which the member countries can base their individual action agenda. While the openness of APEC to countries which are not yet members is already accepted as a principle, the grouping still has to reach a consensus on whether the benefits of liberalization towards these countries would be given on a reciprocal or a most-favored nation basis.[9]

B. The Impact of the Uruguay Round Agreements

28. The conclusion of the Uruguay Round (UR) has reduced the risks of trade and

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[8] Common external tariffs of various groupings like the Andean Group, CARICOM, CACM and for about 80% of products in MECOSUR now range from 0-20%.

[9] US International Trade Commission, "Action Agenda for APEC: Liberalization under Development," *International Economic Review* (September 1995).

investment diversion arising from regional integration efforts for non-member developing countries. With the UR Agreements, developed countries committed to significantly reduce MFN tariff rates on a wide range of imports from developing countries and to totally eliminate tariffs for steel, pharmaceuticals, beer, furniture, pulp and paper, construction and agricultural machinery, toys and several other products. These tariff reduction and elimination commitments are relevant to developing countries insofar as they apply to their products which are not yet accorded duty-free entry or lower tariffs under existing GSP schemes.

29. The UR has also addressed market access issues of importance to developing countries that had previously been excluded from the coverage of GATT, such as trade in agricultural products and in textiles and apparel. The phasing out of the MFA represents a major concession to developing country exporters, while the inclusion of agriculture, subsidies, safeguard measures, and sanitary and phytosanitary measures in the WTO framework improves the conditions for many developing countries.

However, the extent and timetable of liberalization in the case of various "sensitive" products under the UR Agreements still leaves much room for improvement, especially in the case of agricultural products and certain products covered by the MFA. Tariff escalation also remains in some areas such as certain sectors in the food processing and the leather and shoe industries. In these sectors, which compose a large portion of developing country exports to NAFTA and the EU, the risks of trade diversion posed by regional integration efforts thus remain quite significant in the short and medium terms.[10]

30. Certain trade policy measures such as anti-dumping duties, which are being increasingly used by developed countries, still pose possible barriers to the expansion of developing country exports in products where tariff reductions have been committed under the UR Agreements, especially in consumer electronics, steel and metal products. In these areas, regional integration systems can still lead to trade diversion. Another issue that must be taken into account is the increase in GSP rates (with or without compensatory removal of tariff quotas), the removal of GSP benefits for certain products coming from specific countries, and the graduation of an increasing number of developing countries, which can result in higher applied tariffs for developing country exports even under the more liberal conditions created by the UR Agreements.

31. The UR would probably have little short-term impact on investments. However, it is expected to reduce investment-diverting effects of regional integration systems arising from incentives for barrier-induced investments in the medium and long term. This applies especially to the effects of phasing out quantitative restrictions on textiles and further liberalization in the areas of agriculture and services as a result of programmed further negotiations.

C. Impact of Regional Integration within a Multilateral Framework

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[10] This is especially the case for such products as temperate zone and Mediterranean agricultural products, fishery products, textiles, apparel and footwear.

32. The improvement of the multilateral framework resulting from the conclusion of the Uruguay Round has in general reduced the risks of trade diversion that could arise from the creation, deepening and expansion of regional integration systems. However, in spite of the general progress made in liberalization as a result of the Round, such risks have not disappeared in certain areas of interest to developing countries at least in the short and medium terms, especially in areas where liberalization within such regional integration systems go deeper than the limited extent of liberalization committed by countries under the UR Agreements. Thus, regional integration efforts still need to be closely monitored with regard to their effects on trade and investment flows.

33. Regional integration schemes have also gone beyond the traditional areas covered by WTO. EU, extended its objective to full economic and monetary union, which necessarily extends integration to areas way beyond the realm of trade- and investment-related policies. NAFTA, and possibly APEC, include new areas of policy harmonization such as labor standards, environmental policy and a wide range of investment-related issues. Differential measures taken within groupings in new areas also imply new risks of disadvantage to be faced by third countries outside the respective groupings. WTO has not yet developed multilateral rules in these areas which could guide integration groupings and enable third countries affected to defend their interests.

34. The impact of regional integration systems on third countries would thus depend on how fast and how much further beyond the current multilateral framework such regional arrangements go. Conversely, it would also depend on how fast the major countries move towards further multilateral trade and investment liberalization and expanding the scope of the WTO as recent events have generated a momentum for the continuing liberalization of trade and investment at both the multilateral and regional levels.

IV. THE EU AND DEVELOPING ASIAN COUNTRIES

35. Asian developing countries' concerns about the EU center on trade and investment diversion due to the accelerated pace of the Union's integration, the EEA, the EU's agreements with countries in Eastern Europe and the move towards a common European currency. With these developments, there is apprehension among Asian developing countries not only about the usual trade-diverting effects of preferential trade arrangements but also about the possible encouragement of a more Eurocentric strategy among European TNCs and the diversion of East Asian and North American investments to the EU and adjacent areas.[11] Concern has also been expressed about the extent to which EU association agreements with non-Asian developing countries, especially with MERCOSUR, may pose psosible threats to Asian exports to Europe and FDI flows to Asian developing countries.

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[11] Jamuna Agarwal, Erich Grundlach a.o., "EC Economic Integration and its Impact on Foreign Direct Investment and Developing Countries," Koichi Ohno and Yumiko Okamoto [Eds.], Regional Integration and Foreign Direct Investment: Implications for Developing Countries (Tokyo: Institute of Developing Economies 1994), pp. 285-286.

36. Inasmuch as the announcement of the Single Market and the EU's moves towards establishing special trade arrangements with neighboring countries are fairly recent developments, it is still too early to be able to assess their long-term impact on trade and investments. However, data on trade and investment flows in the late 1980s and early 1990s could be used to analyze the immediate effects of these developments and the early trends that may point to possible medium- and long-term effects. The interpretation of these data, though, should also take into consideration the influence of factors other than trade policy developments on trade and investment trends.

37. The available data show little empirical support for fears that current developments in the EU would necessarily have a negative immediate impact on the competitive position of suppliers from Asian developing countries. In fact, Asian developing countries have in general increased their share in the EU's total manufactured imports since the mid-1980s, from 4.2% in 1986 to 7% of the total in 1992. In the case of agricultural products, the rapid increase in the share of intra-regional imports in the EU's total imports (from about 54% in 1986 to almost 70% in 1992) had only a small effect on the share of agricultural imports from Asian developing countries. [Refer to Table 7 and Figures 8 and 9.] A closer look at the data would reveal that the general increase in the intensity of intra-EU trade has occurred mainly in the agriculture sector and primarily at the expense of imports from the US and the ACP countries. The latter case seemingly indicates that other factors may be more decisive than preferential treatment arising from special trade agreements. There were also varying levels of performance among Asian developing countries, with the NIEs, China and ASEAN substantially increasing their market shares for manufactured products in the EU over the period (from a combined 3.6% share in 1986 to 6.3% in 1992), as South Asia's share increased only very slightly. [Refer to Table 7.]

38. In the case of FDI, the data point to a possible effect of closer economic integration in Europe on investors' perceptions. The accession of Spain, Portugal and Greece in 1986, coupled with the publication of the White Paper on the creation of the Single European Market appear to have influenced the dramatic jump in the EU's share of total global FDI flows from 29% in 1985-87 to around 49% in 1990 [Refer to Table 8]. This represented a large amount of capital, since global FDI flows increased four times between 1980 and 1990 (from about US$ 50 billion to slightly over US$ 200 billion).

39. Nevertheless, it is also clear that the expansion of the EU's share in total FDI flows affected mainly the US. The rest of the world, including developing countries in East and Southeast Asia, were absorbing an increasingly larger portion of total FDI during the 1980s and early 1990s. These countries' share of total FDI increased substantially, from 7% in the mid-1980s to 10% in 1991. The share of South Asia remained stagnant at a low level during the period. [Refer to Table 8]. These data show that an increasing attractiveness of Europe for investments would not necessarily lead to lower level of investments for developing Asian countries.

40. A more detailed analysis of European, Japanese and US FDI flows during this period

reinforces these preliminary conclusions. This is partly a result of the fact that these industrialized countries already account for a large portion of each others' FDI flows (about 55% for the US, 65% for Japan, and 84% for the EU in the early 1990s). The increase in US, Japanese and European shares of FDI in the EU and EFTA countries in the late 1980s and early 1990s was accompanied by decreases in the shares of the US. [Refer to Tables 9, 10 and 11]. This is especially true in the case of European FDI flows, where the dramatic increase in Europe's share from 34% to 70% between 1985-87 and 1990 was matched by an equally dramatic drop in the US's share of these European FDI flows from 50% to 16% over the same period. [Refer to Table 11].

41. Asian developing countries as a group have been receiving a rising share of FDI flows from the US and Japan even as US and Japanese FDI flows to Europe increased. [Refer to Tables 9 and 10]. These developing countries' share in total European FDI flows slightly went down in the late 1980s and increased again in the 1990s.[Refer to Table 11]. Nevertheless, Asian developing countries' shares in the Triad's FDI flows are still at relatively low, although rising, levels: about 3% of total European FDI, 7% of US FDI and 19% of Japanese FDI in the early 1990s.

42. Some studies have offered explanations for these trends. One is that a large part of FDI flows diverted to Europe as a result of the move towards the Single Market were in the services sector, instead of the manufacturing sector, where a substantial portion of foreign investments in Asian countries are concentrated [Refer to Table 12.]. This is due to the fact that intra-EU barriers to trade in services were still high, while much of trade in manufactured goods have been liberalized before 1985.[11]

43. Another explanation centers on the different motivations for FDI flows. Investments going to the manufacturing sector in Europe (and other Triad markets) are meant to ensure market access, while those in Asia (especially in the case of Japanese firms) are motivated by cost advantages.[12] Other sectors where FDI in Asia are not likely to be diverted to the EU as a result of economic integration are investments in natural resources such as petroleum, mining and quarrying (which is the case in Indonesia and Vietnam) and in branches of the services sector such as construction, real estate, trade, transport, storage, communication, finance and insurance, which are location-specific.

44. It seems clear therefore that economic policies and other factors shaping the competitiveness of enterprises still play a decisive role in the development of trade and FDI flows. In particular, the East and Southeast Asian developing countries have succeeded in penetrating the European market and attracting FDI even in the face of trade- and investment-diverting effects of EU integration, expansion and preferential trading and free trade arrangements with selected developing countries.

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[11] Ulrich Hiemenz et al., *Regional Integration in Europe and Its Impact on Developing Countries* [Kieler Studien, 260], Tuebingen 1994.

[12] Agarwal, et.al., p. 297.

45. Furthermore, the EU's move to a Single Market and the expansion of its membership are expected to have also positive implications for Asian developing countries. One of these is the impact of the elimination of border controls for goods on Asian exports to Europe. This allows exports to have unhampered access to the whole EU market after passing through the customs barrier of only one member country. The removal of border controls for goods also improves the efficiency of transport services and reduces costs and delivery times for the distribution of goods within the Union, thus generating savings in international journey times and greater flexibility in distribution.

46. Another positive element is the trade-creating effect of economic integration due to its impact on efficiency and general economic growth, which in turn would increase the level of imports from third countries. Studies have predicted that EU membership may contribute to faster growth for Greece, Spain and Portugal, provided that economic policies allow certain effects of economic integration to take place, such as net capital inflows from the more developed member countries attracted by higher rates of return to capital in the less developed ones.[11] This can also apply on a more limited scale to neighboring countries with which the EU has established association agreements. In practice, the benefits of the EU's move towards a Single Market are still limited by various shortcomings, mainly because of delays in the implementation of policies and unresolved implementation issues. This is the case with delays in transposal and differences in the interpretation of Community rules at national level, especially in the areas of public procurement and general product safety. There also remain technical barriers to trade due to the failure of national governments to observe the principle of mutual recognition of national legislation in such areas as foodstuffs and pharmaceuticals, and the difficulties of firms from third countries in obtaining redress for the impact of such technical barriers.

47. Nevertheless, enterprises in Asian developing countries will face greater competition from other parts of the world in the future. With the conclusion of the Uruguay Round and the growing trend towards market-oriented policy reform in many developing countries and economies in transition, competition for export market shares and global capital is expected to intensify in the coming years. As more developing countries and economies in transition succeed in promoting export competitiveness, Asian developing countries can expect to face threats to their market shares in Europe, especially from those countries who would be able to take advantage of preferential and free trade arrangements with the EU, although this will also depend on how large such advantages would be compared to those enjoying MFN treatment under future multilateral arrangements.

V. NAFTA AND ASIAN DEVELOPING COUNTRIES

48. The establishment of NAFTA is an issue of concern to Asian developing countries mainly due to the importance of the US as an export market and a source of FDI, and the

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[11] Robert Summers and Alan Heston, "The Penn World Table (Mark 5): An Expanded Set of International Comparisons, 1950-88," *The Quarterly Journal of Economics*, Vol 106 (1991), pp. 327-368.

possibility that Mexico's membership will divert US imports and FDI away from other developing countries. Most of these concerns center on the short- and medium-term implications of NAFTA on exports of specific products to the US and FDI flows from the US, Japan, the NIEs and the EU to Asia for the manufacture of such products for export to the US. However, there are also longer-term concerns related to recent moves by the US to promote the possible extension of the free trade area arrangement with other countries, particularly in Latin America through the FTAA, but also in other parts of the world.

49. It is important to note that developing Asian countries already supply almost a quarter of total US imports. This figure is larger than the EU's share in the US market. Mexico, which is one of the US's main trading partners together with Canada, accounted for about 7% of total US imports in 1993. Shifts in trading patterns in the late 1980s and early 1990s favored developing Asian countries, Canada and Mexico, whose market shares in the US increased since 1987 at the expense of the EU, Japan and other Latin American countries. [Refer to Table 13 and Figure 11.]

50. Access to and competitiveness on the US market play a determinant role for the capacity of Asian developing countries to attract foreign direct investment from Japan and the East Asian NIEs. In the early 1990s, the bulk of investments of the Republic of Korea and Taiwan Province of China shifted from North America to Asia [Refer to Tables 24 and 25]. Major factors that contributed to these FDI flows were rising wages and appreciating currencies of home countries and increasing protectionism in the US against exports from Taiwan Province of China and the Republic of Korea.[9] Surveys of their investors in Southeast Asia show that the larger number of these firms invest in the region to take advantage of local labor and expand exports to third countries.[10]

51. Japanese FDI flows in recent years also manifested a new emphasis on Asia at the expense of North America and other regions. [Refer to Table 10.] Recent surveys conducted by the Eximbank of Japan identify Japanese firms' motivation to expand production facilities in Asian countries in order to export more goods to third countries as the main reason for this development.[11] The continuing appreciation of the yen is expected to encourage the expansion of Japanese investments to produce parts and components for existing plants in Asia to replace suppliers in Japan. Unlike Korean and Taiwanese investors, however, Japanese firms look at Asia not simply as a production base for exports to third countries, but as markets for their products.

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[9] Kim Won Bae, "The Korean Peninsula and the Future of Northeast Asia," in Sueo Sekiguchi and Makito Noda [Eds.], *Economic Interactions and Interdependence in East Asia* (Tokyo: Japan Center for International Exchange 1994), pp. 52-55. See also Tsay Ching-lung, " Taiwan and the Prospects for Economic Interactions in East Asia," *Ibid.*, pp. 138-142.

[10] Hideki Imaoka, "Foreign Direct Investment of Korea and Taiwan towards the Southeast Asian Countries," in Ohno and Okamoto, *Regional Integration and Foreign Direct Investment*, pp. 126-127.

[11] Shigeki Tejima, "Prospects for Japanese Foreign Direct Investment (FDI) in the 1990s: Toward a New Globalization of the 1990s and 2000s," in Ohno and Okamoto, *Regional Integration and Foreign Direct Investment*, p. 57.

52. Existing analyses of NAFTA's impact on Asian developing countries do not have the benefit of actual empirical data, since NAFTA started to take effect only in 1994. Based on modelling exercies, these analyses show that the extent of trade and investment diversion away from Asian developing countries in favor of Mexico will probably be very limited. Using both a partial equilibrium trade model and a gravity flow trade model, Braga, Safadi and Yeats concluded that NAFTA's trade-diverting effects for East Asian exporters (based on 1990 trade data) will be small. Partial equilibrium estimates of trade diversion put East Asia's trade losses at about US$384 million, representing less than 0.5% of total East Asian exports to the US. Gravity flow model estimates put these losses at US$680 million annually, which is equivalent to about 0.8% of the region's total exports to the US.[18]

53. The study by Plummer and Iboshi notes that the relative openness of the US market limits the impact of NAFTA on ASEAN exports to a few areas where protection in the US remains high (mostly in terms of non-tariff rather than tariff barriers): agriculture and textiles. Some of the ASEAN exports that may also be affected include primary products like crude petroleum, fish products, coffee and cocoa, cane sugar, fruits, vegetables and nuts, textiles and clothing. Other products that would be slightly affected are wood manufactures, some electrical and non-electrical machinery, precision instruments, some chemical products, ceramic materials and miscellaneous manufactures. The largest affected commodities are transistor valves and statistical machines.[19]

54. Significant trade diversion effects are expected for automobiles and parts as a consequence of the high 62.5% North American content requirement. This will affect only a few Asian developing countries, notably the Republic of Korea and Taiwan Province of China, as well as Japan. However, it will also be relevant to other Asian developing countries expecting to gain a foothold in the North American market, especially in the production of parts.

55. Estimates of NAFTA's impact on South Asian exports to the US based on 1989 trade data and assuming pre-Uruguay Round protection levels in the US put total South Asian losses of US$35 million as a result of trade diversion. For the eight South Asian countries concerned, combined losses range from a low of 0.5% of total exports to the US for India to a high of 0.8% for Pakistan and Sri Lanka. The most affected products are textiles and clothing, a few chemical products and travel goods and handbags.[20] Another study on the impact of trade diversion in the electronics sector on East Asian countries using a two-sector model predicted very small losses ranging from 0.07% of total electronics exports to the US

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[18] Carlos Primo Braga, Raed Safadi and Alexander Yeats, *NAFTA's Implications for East Asian Exports* [World Bank Policy Research Working Paper 1351] (Washington DC: The World Bank, 1994).

[19] Michael Plummer and Pearl Imada Iboshi, "Economic Implications of NAFTA for ASEAN Members: A Disaggregated Approach," in *ASEAN Economic Bulletin* (November 1994), pp. 158-175.

[20] Raed Safadi and Alexander Yeats, "NAFTA: Its Effect on South Asia," in *Journal of Asian Economics* Vol 5 (March 1994) No. 2, pp. 197-215.

for Thailand to 0.26% for the Republic of Korea.[21]

56. There are various factors that limit NAFTA's apparent trade-diverting effects on exports of Asian developing countries. First of all, US-Mexican trade in the pre-NAFTA period has been already characterized by low tariff rates, with fuel taking up more than a third of total Mexican exports to the US. A large part of Mexican exports of manufactured goods (US$ 18.6 billion in 1992, roughly half of total manufactured exports for that year) are currently produced in in-bond plants under the *Maquiladora* Program, for which import duties were levied in the US only on the value-added in Mexico.[22] This limits the added advantages that NAFTA will accord to Mexican exports to the US.

57. Second, differences in export structures of Mexico and most Asian developing countries would tend to diminish direct competition. [Refer to Table 16 and Figure 10.]. A very large portion of Mexico's exports to the US (almost two-thirds in 1991) is made up of fuel and machinery. The NIEs' exports are heavily concentrated in light manufactures and to some extent machinery. South Asia's exports are concentrated on light manufactures, with food products coming in a far second as a broad grouping. Most of ASEAN's exports are light manufactures, with Malaysia exporting more machinery and Thailand exporting more food products. Only three Asian developing countries -- Singapore, Indonesia and Malaysia -- have export structures similar to Mexico's.[23]

58. Third, a very large portion of Mexico's total exports (84% in 1993) already go to the US and Canada, making it unlikely that NAFTA will result in immediate and substantial restructuring of Mexico-US trade.

59. Fourth, a number of important Asian exports to the US will continue to have easy access to the US market. This will be the case for US-produced electronic components assembled abroad under Harmonized Tariff System 9802.00.60 and 9802.00.80.[24]

60. Fifth, Asian developing countries, which enjoy a large share in the US market (23% in 1993), have already been enjoying competitive advantages in the US market even with Mexico's edge in terms of geographical proximity and the existing opportunities from the *Maquiladora* Program, especially in textiles and garments as well as in electronics and

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[21] Masahisa Fujita a.o., "North American Regional Integration and Multinational Firms," in Ohno and Okamoto [Eds.], *Regional Integration and Foreign Direct Investment*, pp. 255-262.

[22] Fujita a.o., "North American Regional Integration and Multinational Firms," p. 183-185.

[23] These data are based on a paper of the Economic and Social Commission for Asia and the Pacific entitled *The Implications of NAFTA for the Asia and Pacific Region: Regional Perspective* for a Symposium on Implications of NAFTA for the Asia and Pacific Region, 27-29 September 1994 in Bangkok.

[24] Based on a paper prepared for the ESCAP Symposium on the Implications of NAFTA for the Asian and Pacific Region, 27-29 September 1994 in Bangkok by Mohammed Ariff entitled *The Implications of the North American Free Trade Agreement (NAFTA) for the Asian and Pacific Region: South-East Asian Perspective.*

electrical goods. The US still takes in more than two-thirds of its total textile imports from Asia. For certain products manufactured by US and Japanese firms in *maquiladoras*, like home appliances, parts continue to be imported from Asia. Wide differences in wage rates between Mexico and most ASEAN and South Asian developing countries allow the latter to keep their competitive edge in the production of certain goods. [Refer to Table 17 and Figure 12.]

61. Lastly, the long-term impact of NAFTA on exports of Asian developing countries is likely to be reduced by the lowering of trade barriers in the US and Canadian markets vis-a-vis non-NAFTA member countries as a result of the implementation of the UR Agreements and the progress of APEC as well as future multilateral trade negotiations which the US is trying to promote. The implementation of the Bogor Declaration which commits the US and Canada to the goal of free and open trade and investments by 2010 (and developing member countries by 2020) will further erode advantages acquired by Mexico over other developing APEC member countries resulting from the implementation of NAFTA.

62. Concerns regarding NAFTA's possible investment-diverting effects center on the increased attractiveness of Mexico for firms intending to produce for export to the large US and Canadian markets. Recent studies suggest that the prospects for diversion of investments away from the NIEs and ASEAN in favor of Mexico and the US as a consequence of NAFTA are limited. In the case of Japanese electronics firms, the estimated extent of FDI diversion (in terms of changes in countries' shares in Japanese electronics FDI) is very small, ranging from a low of 0.88% for Indonesia to a high of 4.5% for Hong Kong.[25] One study estimates annual investment losses of 0.5% for Indonesia, from 2% to 5% for Thailand, from 1% to 4% for Malaysia, while Singapore and the Philippines would only be marginally affected by investment diversion, which is expected to occur mainly in textiles, garments, chemicals and metal products.[26]

63. Again, there are several reasons for the expected marginal extent of a NAFTA-induced investment diversion. One is the limited extent of trade-diverting effects expected. Investment diversion will also be limited by other factors that would affect investors' decisions to shift production to Mexico. The first factor is the limited capacity of the US and Canadian markets to achieve high growth rates that could allow their markets to absorb exports at an accelerated pace, unlike in Asia, where growth rates are expected to be among the highest in the world for the next several years. Another factor is profitability given wage rates and labor productivity, which may still make it more advantageous for firms to export to the US from Asia. A third factor is market presence, which would encourage continued investments in Asian developing countries.[27]

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[25] Fujita a.o., "North American Regional Integration and Multinational Firms," p. 261.

[26] Robert McCleery, "NAFTA and Its Effects on Other Regions: U.S. Trade Policy and Asia's Concerns in a Global Context," paper prepared for the Project on Regional Integration and Its Impact on Developing Countries, East-West Center, Honolulu, Hawaii, 1993.

[27] Refer to the ESCAP paper *The Implications of NAFTA for the Asia and Pacific Region: Regional Perspective*, pp. 8-9.

64. The degree of investment diversion will also be affected by industry specialization in Mexico and Asian countries, with diversion being less likely to occur in areas where Asian countries develop strong competitive advantages. NIEs are developing the electronic machinery and transport equipment sectors, ASEAN the iron and steel, metals and non-electronic machinery sectors and South Asia a more varied selection of industries.[n]

65. Recent developments in Mexico, slower growth in the US, and the continued impressive performance of Asian economies underline basic issues that will ultimately determine the direction of capital flows. The more stable and faster-growing Asian economies are expected to attract more investments in the years ahead. Increasing intra-regional trade in East and Southeast Asia, supported by an expanding network of subregional growth areas, intra-regional investment flows, growing demand for goods and infrastructure, and continued liberalization of trade and investment policies within the framework of regional trade arrangements such as AFTA or undertaken unilaterally, serve as magnets for investors.

66. Trade-creation effects will come from higher growth of NAFTA member countries arising from greater efficiency, especially in the case of Mexico. However, unlike the EU (which through the Single Market Programme has practically become a single customs territory), NAFTA does not provide Asian exporters easier access to the whole North American market through one of the NAFTA members, unless a product qualifies for preferential treatment based on fulfillment of North American content requirements.

67. In sum, the potential for trade and investment diversion as a result of NAFTA, especially with regard to Asian developing countries, appears to be limited. In the light of the conclusion of the Uruguay Round, the progress of APEC in promoting free and open trade and investments in the region, and the possibility of further improvements in the multilateral framework for trade, the adverse impact of NAFTA on third countries would probably even be reduced in the next few years.

68. An expansion of NAFTA through the entry of more countries from Latin America (after Chile) or the eventual completion of a Free Trade Area for the Americas could awaken more serious concern on the part of Asian developing countries, especially since certain factors mitigating trade and investment diversion effects of Mexico's membership in NAFTA would not apply to Latin America as a whole. First of all, the completion of the FTAA along the lines of NAFTA would have a greater impact on Latin American exports to the US than in the case of Mexico alone, since there have been more trade barriers in the US for exports from most Latin American countries compared to Mexico in the past.

69. Second, Latin America as a whole exhibits a more varied export structure that could result in direct competition with exports from Asian developing countries. Third, there is wide

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[n] Based on UNIDO, Industry and Development: Global Report 1991/92 as cited by the ESCAP paper *The Implications of NAFTA for the Asia and Pacific Region: Regional Perspective*, p. 10

room for a restructuring of Latin American exports towards the US in the wake of the FTAA's completion, since the US takes up smaller portions of several large Latin American countries' exports: 10% in the case of Argentina, 22% for Brazil and 18% for Chile. [Refer to Table 18 and Figure 11.] Investment diversion would also be enhanced by the pull of the large Latin American market for investments seeking market presence in the hemispheric free trade area. Thus, the potential for trade and investment diversion over the long term in the case of the FTAA would be much more serious than in the case of NAFTA.

70. Nevertheless, current political realities in the US and in Latin American countries would make it difficult to structure the FTAA along the lines of NAFTA, and to complete such a project in the foreseeable future. Concerns among Latin American governments about US demands on specific trade-related issues connected with labor standards and environmental protection that have been introduced in NAFTA stand in the way of a more serious attempt to expand NAFTA's coverage to the whole hemisphere in the immediate future. A more probable scenario would be a looser arrangement that more closely resembles a diverse grouping such as APEC rather than NAFTA.

VI. APEC AND ASIAN DEVELOPING COUNTRIES

71. A more thorough analysis of the impact of APEC on Asian developing countries will have to wait until a well-defined action agenda for achieving the grouping's goal of "free and open trade and investment" by the year 2020 is completed. As things now stand, APEC will probably be different from traditional free trade and customs union agreements. First, APEC is likely to rely on a combination of multilateral, regional and unilateral approaches to achieving the goal of free and open trade and investment. Second, it will probably encompass not only such issues as market access in goods, services and investment, tariff and non-tariff barriers, intellectual property rights protection and government procurement but also other trade-related issues such as competition and deregulation.

72. APEC has also accepted the principle of "open regionalism," which involves regional economic integration without discrimination against economies outside the region."[a] The current consensus in APEC favors immediate-term actions on an MFN basis, and several members also wish to grant whatever liberalization they undertake as part of APEC unconditionally to the rest of the world. However, US policymakers continue to advocate liberalization vis-a-vis non-members on a reciprocal basis, steering APEC towards the direction of a more traditional free trade area or customs union, though remaining open to countries willing to accept the rules of free and open trade and investment.

73. At present, there is a moratorium on accepting new members, though several countries

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[a] Ross Garnaut, "Open Regionalism: Its Analytic Basis and Relevance to the International System," *Journal of Asian Economics* Vol 5 (1994) No. 4, p. 273.

have expressed interest in joining.* Some APEC members, especially the US, want to first see APEC agree on a substantial trade and investment liberalization programme before accepting new entrants, including other Asian developing countries. Thus, an analysis of APEC's possible impact on Asia would have to consider Asian developing country members and non-members separately, and using two scenarios: trade and investment liberalization within APEC extended to non-members unconditionally and such liberalization open to non-members only on a reciprocal basis. It is not yet clear to what extent and how fast trade and investment liberalization within APEC will be undertaken, but it will be assumed that this will lead to substantial reductions in trade and investment barriers by the beginning of the next decade, preceded by unilateral trade openings by major APEC partners on an MFN basis.

APEC and Asian developing member countries

74. APEC trade is dominated by developed country members US, Canada and Japan, which account for about 57 per cent of total trade. However, Asian developing country members (the NIEs, ASEAN and China) are already important players, currently contributing 36% to total regional trade. [Refer to Table 19 and Figure 14.] The US is the most important export market in the grouping, and forms together with the NIEs and Japan the major links of trans-Pacific trade. [Refer to Table 21 and Figure 16.] Japan and the NIEs constitute the hubs of Western Pacific trade, but the roles of China and ASEAN are growing as their shares in total APEC trade increase.

75. There is a high level of economic interdependence among the APEC economies. APEC takes up on average about two-thirds or more of individual member countries' total trade, while the EU accounts for only between 13% and 15% (apart from Australia/New Zealand where this share reaches 22 per cent). ASEAN, Japan and the East Asian NIEs are the countries whose trade with the grouping is the most intense. [Refer to Table 21 and Figure 15.] NAFTA (primarily the USA), Japan and the NIEs figure prominently in the trade of most APEC member countries.

76. Investment flows within APEC have also been growing faster, with member countries overtaking the EU as the main source of direct foreign investments for the whole region. In 1980, the EU accounted for 44% of such investments in APEC countries while other APEC countries only invested 34% of the total. By 1991, the EU's share in total direct foreign investments in all APEC member countries has gone down to 29% while APEC members' share has gone up to 54%. [See Table 22 and Figure 17.] Within APEC, Japan and the Newly-Industrializing Economies (NIEs) have overtaken North America as the largest source of direct investments. [See Table 23 and Figure 18.]

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* Present members of APEC are Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Taiwan Province of China, Thailand, United States. Countries which expressed interest to join APEC include Macao, India, Panama, the Russian Federation and Vietnam.

77. Investment patterns show the difference in emphasis between the US and Japan, on the one hand, and the NIEs, on the other. US and Japanese investments are still focused on industrialized country markets (North America, Europe, Japan and the NIEs). The NIEs' outward investments, in contrast, are concentrated in the developing countries of East and Southeast Asia, whose shares in US and Japanese FDI have also been increasing. Asian developing country members of APEC are becoming magnets for trans-Pacific and intra-Asian FDI flows, with a balance among Japan, the NIEs and the US as the main sources of these investments.

78. Trade and investment flows, which have been key factors in the rapid growth of Asia-Pacific economies, will remain important for the continued growth of East and Southeast Asian developing countries. The US, Japan and the NIEs clearly play the most important roles in the region as the main sources of foreign direct investments, the largest trading nations and export markets within APEC, the trading hubs on their respective sides of the Pacific, and the strongest links in trans-Pacific trade.

79. For Asian developing countries, APEC is important for various reasons. It offers possibilities for ensuring and further expanding market access in the US and Japan -- their main export markets -- for areas which have not been sufficiently liberalized under the UR Agreements. It is important in reducing the negative effects of NAFTA and its possible expansion into an FTAA on Asian exports to the US. APEC is also important as a vehicle for promoting multilateral trade liberalization within the framework of the WTO. Being export-oriented economies and depending on the expansion of exports worldwide for continued growth, ASEAN, the NIEs and China favor together with Japan a global arrangement rather than an exclusive free trade area or customs union arrangement for APEC.

APEC and Asian developing non-member countries

80. Non-APEC Asian developing countries face a more difficult situation than the APEC members with regard to the formation and expansion of large economic spaces in Europe and North America. On one hand, the level of trade among countries within this grouping is quite low at less than 3% of total trade as of 1993, and the importance of this trade has declined since the early 1980s. On the other hand, their trade dependence on the EU and APEC is high, with both groupings taking up 78% of their total exports in 1993. [Refer to Table 5.]

81. These countries also face greater challenges than the NIEs and ASEAN in adjusting to greater competition for export markets and capital as well as to the liberalization of trade and investment policies. Compared to the NIEs and ASEAN, the economies of non-APEC Asian developing countries are less outward-oriented. Average export-to-GDP ratio of this group for 1992 amounts to only 12.3% as compared to the 43.0% average for the NIEs, ASEAN and China. [Refer to Table 1.] They also account as a group for a very small portion of global FDI flows (less than 0.2% for 1991), compared to larger portions for East and Southeast Asian market economies.

82. For these countries, a development of APEC that leads to a closed free trade or customs union type of arrangement (which is less probable) would entail losses due to trade and investment diversion in the APEC market in favor of APEC member countries with similar economic structures. Based on current export structures [Refer to Table 16], trade and investment diversion in the food sector is likely to occur in favor of ASEAN countries and in other manufactures in favor of the NIEs in the APEC market. This impact would, however, be softened by further unilateral liberalization measures of major APEC members, accelerated implementation steps of the Uruguay Round agreements and scheduled future negotiations within WTO on agriculture and services. Again, the extent of trade and trade-related investment diversion would depend on how deep APEC integration efforts would go compared to multilateral arrangements within the WTO framework.

83. Should APEC develop into a free trade area or a customs union that is open to new members, the other Asian developing countries would have the option of joining it. However, this would entail trade and investment liberalization commitments on their part which would go beyond current Uruguay Round commitments, and which could possibly include trade-related measures that are still outside the scope of the WTO. It should be noted that the extent of economic integration arrangements in APEC would be greatly influenced by what is acceptable for the most cautious members (e.g., China, Malaysia, Japan, Republic of South Korea), so that such arrangements should more easily be acceptable to most other Asian developing countries. Nevertheless, the cost of adjusting domestic policies would be higher for these other countries than for most APEC members, since their economic policies are generally not as outward-oriented as the latter.

84. The best scenario for non-APEC Asian developing countries, from the political standpoint, would be a decision by APEC members, either individually or as a group, to liberalize their trade and investment policies on an MFN basis. This is a possible scenario given the current sentiment in several member countries which are concerned about maintaining the level of their economic interaction with the EU and other non-APEC countries. In this case, Asian developing countries could enjoy the benefits of better market access terms in APEC countries without having to make commitments themselves. From the economic standpoint, though, it would be advisable for these countries to nevertheless accelerate trade and investment liberalization moves which would improve the efficiency and competitiveness of their domestic enterprises. Furthermore, the questions arises how far APEC members would be ready to go in that direction without obtaining mutual advantages in other than least developed countries.

85. Membership in APEC would be advantageous for the longer term, especially since APEC, depending on the extent of integration it would commit its members to, could eventually absorb the smaller integration systems like NAFTA, AFTA and the CER (or at least provide better market access terms in these countries than in the case of non-members) and possibly the FTAA (or in a similar way improve market access to MERCOSUR, the Andean Group, CACM, the Caribbean Community and other groupings that may arise in Latin America). Given current political realities, however, APEC would probably not go as

far as NAFTA (in terms of including provisions on various trade-related issues such as labor standards and environment), MERCOSUR (in terms of establishing a customs union) or AFTA (if it pushes through with plans to significantly liberalize regional trade in services).

86. APEC promises a better environment for international trade and investments within the region than what the WTO currently offers, although how much better this would be depends on how deeply APEC integration proceeds. The WTO covers a wider range of issues that the GATT did not cover substantially or at all, but there are still several issues that APEC could work on to improve conditions for international trade and investment flows among member countries. Among these are further improving market access for goods and services (especially key services like telecommunications, shipping, air transport, retail trade and finance, and the movement of natural persons), improving the climate for FDI flows, competition policy, monetary cooperation, promoting small- and medium-scale enterprises and technology transfer.

87. In a more liberalized environment for trade and investments within the APEC framework, the questions of industrial specialization and markets arise. Open trade and investment as envisioned by APEC will inevitably lead to greater competition at home and in foreign markets, especially among economies that are similar in structure. This poses challenges for economies that still rely on labor-intensive manufacturing in terms of competition from other countries with abundant labor supply, the development of labor-saving technologies in developed countries, and increasing international labor mobility.

88. More recent trends in East and Southeast Asia indicate that, in the age of global business operations, where different components of a product can be manufactured in different locations, a degree of international division of labor does develop with increased trade and investment flows, even among countries that apparently have similar economic structures. This process is influenced by differences in natural resource endowments (e.g., petroleum for plastics and chemicals, specific minerals for metal manufactures, timber for wood-based products, specific marine and agricultural products for processed food) as well as differences in manpower skill and educational levels and geographical factors, and encouraged by certain policies (e.g., ASEAN Industrial Joint Ventures, Brand-to-Brand Complementation schemes, and subregional growth areas like the Singapore-Johore-Riau Growth Triangle and the East ASEAN Growth Area).

89. Rapid economic growth in East and Southeast Asia and massive FDI flows from the NIEs to less developed countries in the region are leading to major changes in trade patterns among Asia-Pacific countries. Over a relatively short period of time, the NIEs have become important sources of FDI flows and markets for Southeast Asian exports beside the US and Japan. Patterns of economic growth indicate that ASEAN countries and China, which are now the fastest growing economies in the region, are following in the path of the NIEs. Over the longer term, and assuming that internal political stability in key countries like China and Indonesia can be maintained, East and Southeast Asia can develop into a major market for

goods and services from other Asian countries, opening up opportunities for diversification of trade relations.

VII. SUMMARY AND POLICY CONCLUSIONS

90. The trend towards deepening and expansion of large integration systems in Europe and North America poses challenges to Asian developing countries in a few areas. However, existing analyses and studies suggest that the negative impact of such developments since the mid-1980s has been and will be limited. These negative effects are also supposed to be compensated for by trade creating and trade facilitating effects of such integration schemes either fully or partially, depending on other factors that influence economic growth in these markets.

91. The experience of deepening EU integration in the late 1980s and early 1990s confirms the possibility of trade and investment diverting effects of regional integration schemes, which are also expected to happen with NAFTA. However, two important developments stand out: the concentration of trade and investment diversion effects of EU integration on countries outside Asia and the continuing expansion of East and Southeast Asian trade and investment relations with the EU. These indicate that developments in the domestic economies of countries have a much greater impact on trade and FDI flows than discriminatory trade arrangements, and that developing countries whose policy and business environments are conducive to the global competitiveness of enterprises can overcome disadvantages posed by regional integration schemes.

92. The differences between East and Southeast Asian countries on one hand and the rest of developing Asia on the other in terms of economic orientation and growth would thus spell a major difference in how these countries would be affected by developments in the EU, NAFTA and APEC. East and Southeast Asian countries are expected to have fewer difficulties in compensating for the trade- and investment-diverting effects of the EU and NAFTA, and their exports to these markets would probably continue to expand in the years ahead. Other countries in developing Asia, in contrast, are faced with greater challenges in maintaining market shares in North America and Europe and continuing to attract FDI flows.

93. The development of APEC would pose greater opportunities for the NIEs, ASEAN and China and more challenges for South and Southwest Asia. With market shares in APEC that have been expanding rapidly in the past few years, the former would be able to take advantage of the positive impact of APEC on the expansion of market access in member countries and on the reduction of the discriminatory effects of NAFTA, AFTA and CER for those who do not form part of these groupings. Adjustments in policies in terms of trade and investment liberalization would be less difficult in the already more outward-oriented Asian countries, although policy-makers would still need to overcome political pressures from the few protected sectors and producers of "sensitive" agricultural products, as well as in important services sectors like telecommunications, air transport, shipping and banking.

94. South and Southwest Asian countries which are currently not members of APEC will face a dilemma in the years ahead as APEC develops. Joining or linking up with APEC would probably entail domestic economic policy adjustments that are not easy to undertake in the face of political resistance from special interest groups. Staying out of APEC may be the less politically costly option; however, its medium- and long-term effects on market shares and capabilities to attract FDI may be unavoidable with some trade and investment diversion occurring in favor of East and Southeast Asian countries. Even if the APEC decide to extend trade and investment liberalization benefits unconditionally to other Asian developing countries, the pressure for market-oriented policy reforms will still be more intense as greater efficiency of APEC-based enterprises will pose more challenges to other Asian developing countries.

95. APEC will provide greater opportunities for diversification of partner countries and specialization in terms of trade and investments. New markets are being developed through rapid economic growth, expansion of trade and investment flows, and the development of subregional integration arrangements in East and Southeast Asia. These factors are also leading to greater intra-industry trade and investment flows and industry specialization along lines reflecting comparative and competitive advantages. With the further liberalization and facilitation of trade and investments within the framework of APEC, these trends are expected to intensify.

96. Asian developing countries have several non-exclusive options in responding to the challenges posed by the expansion and deepening of regional integration arrangements:

The Multilateral Route

97. The implementation of the UR Agreements and continued multilateral trade liberalization within the framework of the WTO are some of the factors that would reduce, though not completely, the trade- and investment-diverting effects of regional integration schemes. Asian developing countries would have an interest in strengthening the multilateral system, especially in dealing with the further liberalization of agricultural trade and with non-tariff barriers and the issue of anti-dumping and countervailing measures that are increasingly becoming the main barriers to the expansion of developing country exports to Europe, North America and Northeast Asia.

98. The question is how soon these concerns can be addressed within the multilateral system. There is probably some leeway for improving market access in a few areas beyond the Uruguay Round commitments within the WTO framework. However, without any major initiative on the part of key member countries, the WTO is expected to concentrate on the implementation of the UR Agreements rather than on making improvements or preparing for a new round of negotiations. The history of GATT also points to the trend towards longer multilateral trade negotiations as a consequence of the increasing complexity of trade and trade-related issues. Whereas the first few GATT rounds were concluded in less than a year's time, the Uruguay Round took more than six years to complete.

99. Nevertheless, the multilateral system must be the long-term reference point for Asian developing countries. The importance of both the North American and European markets, especially for South and Southwest Asian countries, makes a regional option restricted to Asia unattractive. Asian developing countries must focus on approaches that will reduce, and possibly eliminate in the long term, the discriminatory effects of regional integration schemes in these markets. This has been the approach favored by Asian developing countries with regard to their participation in APEC.

Participation in APEC

100. APEC provides a possible framework to achieve substantial improvements over the current multilateral arrangements within the WTO framework. It includes a large number of countries which together account for about 40% of the world's total population and trade and more than 50% of the world's total GDP. It includes key players in world trade: the US, Japan, China, the NIEs and ASEAN and several members of the Cairns Group. It includes three regional integration schemes: the NAFTA, the AFTA and the CER. It also has the possibility of expanding to include a large number of Latin American countries should APEC link up with the FTAA. It is open to the possible entry as members of Russia and other Asian countries in the future.

101. With fewer differences among member countries in APEC than in the WTO, where difficult issues between the US and the EU remain unresolved, APEC could provide benefits to Asian developing countries' exports beyond those provided by the current multilateral system. Considering the probable development of APEC as a regional integration system that strengthens rather than undermines the present multilateral system and reduces the adverse effects of existing regional trade arrangements in Asia and America, the expansion of its membership to other Asian developing countries would appear to have a beneficial impact on developing countries of the region.

102. Participation in APEC would entail political costs, which would tend to be higher the greater the need of a country for economic policy adjustment. Other Asian countries would probably be invited to join APEC only after the blueprint for the achievement of free and open trade and investments in the region according to the Seattle Vision Statement and the Bogor Declaration has been sufficiently defined. Based on current discussions taking place, this could mean agreement by member countries to accelerate substantially the implementation of their UR commitments in the immediate future, and to move towards liberalizing trade in goods and services and investments by the beginning of the next decade.

Association and Free Trade Agreements with Existing Regional Groupings

103. Another option open to Asian developing countries in responding to regional integration is the conclusion of association or free trade agreements with existing regional

groupings, such as the EU, AFTA and NAFTA according to existing models. The EU has association agreements with third countries (such as those in Central and Eastern Europe and in the Mediterranean) that provide for free trade and freedom of movement, political dialogue and economic, cultural and financial cooperation.

104. The free trade area under the association agreement is supposed to be established gradually on the basis of reciprocity, with the EU moving more rapidly towards free trade while associated countries move towards free trade with the EU in two phases. However, free trade will be mainly in industrial products, without necessarily liberalizing agricultural trade and services. Substantial liberalization of the movement of natural persons between the EU and associated countries will be considered only "once social and economic conditions in associated countries have been brought substantially into line with those in the [Community] Member States."[11]

105. Through an association agreement between the EU and Asian developing countries, Asian enterprises would be able to put their products at the same level as those coming from competitors in the Mediterranean countries and Eastern Europe.

106. The ASEAN is a grouping that could be considered as a possible candidate for consideration of an association agreement with the EU. Its members have gone a long way in implementing market-oriented policy reforms that have enhanced the capabilities of enterprises to globally compete and that would, with some more improvement, enable them to qualify for associated country status. Cooperation between ASEAN and the EU, through their regional framework agreement, has also expanded through the years, especially as ASEAN has developed into a successful model for regional integration among developing countries.

107. The main obstacle to the formation of such agreements between the EU and Asian countries, though, is political: several Asian developing countries and the EU may not agree on various political issues such as human rights, democracy and the status of certain territories. Even in the case of ASEAN, differences between the two groupings remain over the status of East Timor. The expansion of ASEAN to include Vietnam, and in the future, possibly also Myanmar, Cambodia and Laos, could introduce more complexity in ASEAN-EU political relations.

108. The option of forging a free trade agreement with NAFTA coincides with one of the US' major strategies in promoting a more liberal global trading and investment environment. However, this option carries with it difficulties for many Asian countries in meeting the demands for membership in the free trade area, which in fact do not even seem to be

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[11] Commission of the European Community, *Association Agreements with the Countries of Central and Eastern Europe: A General Guideline* [Europe Documents No. 1646/47 7 September 1990] (Brussels: Agence Internationale d'Information pour la Presse 1990), pp. 5-6.

currently acceptable within APEC. NAFTA already incorporates elements that go beyond the present scope of the WTO such as labor standards and environmental protection, aside from more substantial liberalization of trade in services.

109. Some Asian developing countries, such as Singapore, may be in a position economically and politically to become members of NAFTA. Political questions may deter such a development for others. Bilateral trade-related policy issues such as unfair trading practices and protectionism in some sectors like agriculture and automobiles could stand in the way of certain countries' membership in NAFTA. Other Asian countries would not be ready given the extent of domestic policy reforms in terms of opening up various sectors to competition from North American firms that membership in NAFTA would require.

110. Under current conditions, membership in AFTA is limited to only Southeast Asian countries (allowing only Cambodia, Laos and Myanmar to qualify for future membership). An association agreement between South and Southwest Asian countries and AFTA, which could include AFTA's provision of common preferential 0%-5% tariffs by the year 2004, would be a new development that would produce marginal benefits in the short and medium term, since trade among Southeast, South and Southwest Asian countries still makes up only a small portion of their total trade. Also, although all participants would benefit from the economic standpoint in a free trade arrangement, South and Southwest Asian countries may not feel ready enough to expose their firms to the challenge of what they perceive as more competitive enterprises in the fast-growing ASEAN countries.

111. The East Asian Economic Caucus (EAEC) is another proposal that groups together the ASEAN countries, the NIEs, China and Japan. Current versions of the proposal envision the grouping to become a caucus to strengthen and coordinate the members' positions in economic negotiations rather than a regional integration system. Converting the EAEC into a free trade area or a customs union scheme would have a great impact on Asian member countries due to the very strong complementarities of their economies, which are at different stages of development and which command a variety of natural resources and a wide range of manpower skill levels.

112. The formation of such an integration scheme could result in important trade and investment diversion effects that would have an impact on the rest of Asia and the Western Hemisphere. However, such a project would encounter enormous political problems within the region. Asian countries are also wary about its possible impact on continued access to the US market, which is still one of their main export markets, considering US opposition to such an integration scheme.

The Challenge of Domestic Policy Reform

113. Domestic policy reform remains a necessary requirement for success in Asian developing countries' response not only to the challenge of maintaining and expanding market

access in the face of regional integration schemes, but also to the challenge of the more competitive global environment for trade and investments brought about by the conclusion of the Uruguay Round. As the experiences of the NIEs, ASEAN and China show, the competitiveness of enterprises is a more important factor than preferential trade arrangements in the struggle for market shares both at home and abroad. Thus, it is important that domestic policies foster global competitiveness among enterprises.

114. Reforms in this direction must focus on policies that favor the flow of capital to the more competitive sectors in the economy, lower the cost of goods and services to outward-oriented enterprises and lower the costs of doing business in terms of lower inflation and interest rates and stable exchange rates. This means accelerating reforms in trade and industrial policies that will promote an outward-oriented economy, especially those which remove policy biases against potentially competitive sectors such as agriculture and labor-intensive manufacturing, as well as those phasing out policies which protect key sectors at the expense of industries that have to compete in the global market.

115. Trade policy provides an important set of incentives for investments. In the past, import-substitution regimes encouraged investments in capital-intensive industries by making these sectors artificially profitable through tariff protection. Such practices not only diverted capital away from potentially more competitive sectors like agriculture and agriculture-based and labor-intensive industries; they also reduced the latter's competitiveness through the higher cost of inputs due to protection. High barriers to entry in key sectors like telecommunications, finance and transportation, which discouraged competition, led to higher costs for export-oriented industries and services.

116. A reorientation of policies to remove the bias against sectors where countries have comparative advantages in and are thus globally competitive would entail liberalization of trade and industry policy and deregulation of key sectors to introduce more competition in the economy. While the NIEs and most ASEAN countries have already been carrying out policies that favored the export sector, many Asian developing countries still have to grapple with trade and industry reforms in the face of political opposition from various sectors.

117. Together with trade and industry policies, macroeconomic policies that promote stability are important for providing a favorable environment for enterprises competing in the global market. The challenge of macroeconomic reform is a difficult one in countries where the public still needs to be convinced of paying the price for macroeconomic stability and in economies in transition like China and Vietnam, where the goal of providing safety nets for employees of inefficient state corporations and for beneficiaries of subsidized utilities (which are important for political and social stability) must be balanced with that of reducing the drain on government finances.

The Role of International Cooperation

118. The task of carrying out domestic policy reforms, which enhances global competitiveness of enterprises, must be supported by international cooperation in various areas. First, the process of multilateral and regional trade liberalization aids the political process that leads to domestic policy reforms by allowing policy-makers to make reciprocated commitments and by demonstrating the benefits of international trade and allaying fears of competition. The conclusion of the Uruguay Round, as well as progress of regional integration schemes such as AFTA and APEC, have encouraged various Asian developing countries to accelerate the pace of domestic policy reforms. The progress of the WTO, APEC and other regional arrangements in the future could encourage countries to continue accelerating such reforms.

119. Second, international cooperation is needed to help developing countries in maximizing the opportunities of a liberalized global trading environment. Technical cooperation between developed and developing countries in areas such as exchange of market information, harmonization of clearance procedures, electronic transmission of customs information, implementation of transparent domestic standards, regional infrastructure and other areas of trade facilitation would allow Asian developing countries to expand their trade with traditional as well as emerging markets.

120. Third, international cooperation among Asian developing countries and between them and others who would benefit from the strengthening of the WTO and the reduction and eventual removal of discriminatory trade barriers posed by regional integration systems is important in the face of deepening and expanding regional integration efforts in Europe and elsewhere. This is especially so as the US, which for several decades had been the main defender of the multilateral system, has increasingly engaged in unilateral, bilateral and regional measures to address its trade concerns.

121. Fourth, developing countries can make use of existing South-South integration schemes such as AFTA and SAARC to support the process of trade liberalization and prepare enterprises for global competition. Such regional integration schemes offer enterprises the benefits of larger markets, cheaper imported inputs and economies of scale, and make participating economies attractive for foreign investments without raising fears of open competition enterprises based in more advanced countries. The establishment of subregional arrangements within "growth triangles" also helps in promoting investments in border areas and in developing telecommunications, transport, tourism and trade linkages among neighboring countries and provinces.

STATISTICAL ANNEX

TABLE 1: BASIC INDICATORS FOR DEVELOPING ASIAN COUNTRIES

	Population Millions	Area Thousand sq. km	GNP/capita 1992, US$	GNP/capita av.ann.gr. 1980-92 %	Exports, 1992 US$ mill	Export* to GDP ratio 1992
Afghanistan	21.5	652	205	...	277	9.2
Bangladesh	114.4	144	170	2.0	1,903	8.0
Bhutan	1.5	47	180	6.3	66	8.1
Cambodia	9.0	181	150	...	70	1.6
China	1,162.2	9,561	470	7.6	84,940	16.8
Hong Kong	5.8	1	15,360	5.5	30,251	38.9
India	883.6	3,228	310	0.2	19,795	8.2
Indonesia	184.3	1,905	670	4.0	33,815	26.8
Korea, Rep. of	43.7	99	6,790	8.5	76,394	25.8
Laos	4.4	237	250	...	91	7.6
Malaysia	18.6	330	2,790	3.2	40,705	70.7
Maldives	0.2	0.3	500	6.8	56	32.2
Myanmar	43.7	677	250	...	539	1.4
Nepal	19.9	141	170	2.0	369	12.5
Pakistan	119.3	796	420	3.1	7,264	15.4
Papua NG	4.1	463	950	0.0	1,076	25.4
Philippines	64.3	300	770	-1.0	9,790	18.7
Singapore	2.8	1	15,730	5.3	63,386	137.7
Sri Lanka	17.4	66	540	2.6	2,487	25.4
Taiwan, Province of China	20.8	36	8,685	...	81,337	39.9
Thailand	58.0	513	1,840	6.0	32,473	29.4
Vietnam	69.3	332	232		2,600	18.9
TOTAL	2,868.8	19,710.3	2,610	3.9	489,684	26.3

* Merchandise exports.

Sources: World Bank, *World Development Report 1994* and *World Tables 1994* Multimedia World Atlas; The Heritage Foundation, US and Asia Statistical Handbook 1993 Edition

TABLE 2: MEMBERSHIP IN WTO AND REGIONAL GROUPINGS

	WTO	APEC	AFTA	SAARC
Afghanistan				
Bangladesh	♦			♦
Bhutan				♦
Cambodia				
China		♦		
Hong Kong	♦	♦		
India	♦			♦
Indonesia	♦	♦	♦	
Korea, Republic of	♦			
Laos				
Malaysia	♦	♦	♦	
Maldives	♦			♦
Myanmar	♦			
Nepal				♦
Pakistan	♦			♦
Papua NG		♦		
Philippines	♦	♦	♦	
Singapore	♦	♦	♦	
Sri Lanka	♦			♦
Taiwan, Province of China		♦		
Thailand	♦	♦	♦	
Vietnam			♦	

Source: Time 1995 Almanac

TABLE 3: SHARE OF INTRA-REGIONAL TRADE IN TOTAL TRADE: EU, NAFTA AND APEC, 1980-93 (%)

Year	APEC		EU		NAFTA	
	Exports	Imports	Exports	Imports	Exports	Imports
1980	55.49	54.24	61.19	54.22	33.62	32.04
1981	56.95	56.48	57.74	53.08	35.54	33.38
1982	61.73	62.96	58.87	54.59	34.18	33.93
1983	65.76	65.30	59.56	56.26	38.38	35.11
1984	69.64	66.49	59.07	56.17	42.01	34.11
1985	68.60	67.15	59.57	57.61	43.92	33.82
1986	71.45	68.15	62.11	62.42	43.07	31.40
1987	72.54	69.44	65.50	63.39	43.02	30.58
1988	72.46	71.36	66.60	63.17	40.82	32.23
1989	73.08	71.20	66.99	62.54	40.49	33.02
1990	72.52	69.88	67.91	63.28	41.39	33.25
1991	72.47	72.82	68.84	62.82	40.65	34.20
1992	73.27	73.70	68.81	63.73	41.89	34.47
1993	75.55	74.89	60.26	59.42	45.43	35.95

Source: IMF, Direction of Trade Statistics, various years

TABLE 4: SHARE IN TOTAL TRADE OF ASIAN DEVELOPING COUNTRIES: EU AND NAFTA, 1980-93 (%)

Year	NAFTA		EU	
	Exports	Imports	Exports	Imports
1980	18.07	17.39	16.56	14.54
1981	18.82	17.07	14.04	13.95
1982	18.73	17.88	13.96	14.08
1983	22.52	17.34	13.48	14.84
1984	24.54	17.20	12.77	14.11
1985	24.45	15.78	12.60	15.32
1986	25.75	14.84	15.06	17.17
1987	25.40	15.07	15.66	16.31
1988	24.02	16.05	15.58	15.46
1989	24.28	16.61	15.23	14.99
1990	22.02	15.74	16.47	15.39
1991	20.64	15.22	16.44	14.30
1992	21.16	14.48	15.76	14.16
1993	22.53	13.77	15.53	14.20

Source: IMF, Direction of Trade Statistics, various years

TABLE 5: SHARE IN TOTAL TRADE OF NON-APEC ASIAN DEVELOPING COUNTRIES: ASIAN APEC MEMBERS, EU AND NAFTA, 1980-93 (%)

Year	ASIAN APEC		NAFTA		EU	
	Exports	Imports	Exports	Imports	Exports	Imports
1980	33.28	20.62	10.17	13.45	21.68	22.53
1981	33.69	21.84	10.42	10.21	17.86	21.86
1982	34.03	24.81	12.61	11.35	23.14	23.95
1983	33.62	26.07	17.07	12.28	18.93	24.07
1984	30.18	28.53	19.78	11.44	20.68	22.30
1985	31.93	28.19	19.51	12.20	20.91	24.48
1986	31.65	29.67	19.60	10.39	22.82	30.01
1987	20.85	29.05	19.39	9.92	27.44	29.29
1988	22.49	28.84	19.06	10.68	27.37	29.55
1989	27.53	31.48	24.87	13.59	28.75	29.08
1990	22.38	28.94	16.76	11.63	28.85	27.96
1991	24.59	30.86	17.10	9.92	29.69	25.57
1992	29.19	33.93	17.12	9.81	31.00	25.01
1993	27.80	37.37	20.31	8.18	29.83	24.16

Source: IMF, Direction of Trade Statistics, various years

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TABLE 6: SHARE IN TOTAL TRADE OF ASIAN COUNTRIES: ASIAN APEC MEMBERS, EU, NAFTA, REST OF THE WORLD, 1993 (%)

	APEC Asia	NAFTA	EU	ROW
ASEAN	54	19	14	13
East Asia*	47	26	13	14
China	43	16	14	27
Non-APEC Asian LDCs	33	13	27	27

*East Asia is composed of Japan, the Republic of Korea, Taiwan, Province of China and Hong Kong
Source: IMF, Direction of Trade Statistics, various years

TABLE 7: REGIONAL STRUCTURE OF EU IMPORTS: (% OF TOTAL EU IMPORTS)

	1980	1986	1992
AGRICULTURAL PRODUCTS			
EU	54.1	62.9	69.4
USA	7.8	4.5	3.5
Japan	0.2	0.2	0.1
ACP	7.2	7.3	3.8
NIEs	0.6	0.4	0.2
China	0.6	0.7	0.7
Southeast Asia	3.0	2.9	2.8
South Asia	1.0	0.7	0.7
MANUFACTURED PRODUCTS			
EU	62.8	65.2	63.7
USA	9.3	7.8	7.7
Japan	4.4	6.4	5.8
ACP	0.4	0.4	0.4
NIEs	2.9	2.9	3.3
China	0.3	0.5	1.7
Southeast Asia	0.4	0.5	1.3
South Asia	0.6	0.5	0.7

*NIEs are Hong Kong, Singapore, Rep. of Korea and Taiwan, Province of China; SEA (Southeast Asia) includes Indonesia, Malaysia, Philippines and Thailand; SA (South Asia) is composed of Bangladesh, India, Nepal, Pakistan, Sri Lanka
Source: Statistical Office of the European Communities, Monthly EEC External Trade (Combined Nomenclature), CTC 1-5-Pays-Produits, SCE-2311, CD-ROM, various issues

TABLE 8: SHARES IN TOTAL GLOBAL FDI FLOWS (%)

Recipient countries	1985-87 *	1988-90*	1990	1991
EU	29.0	42.7	49.1	43.5
USA	44.6	31.9	22.5	6.8
China	2.3	1.9	1.7	2.6
NIEs	2.8	2.3	2.3	2.8
ASEAN	1.5	2.7	3.3	4.4
South Asia	0.2	0.3	0.1	0.2
Rest of world	19.6	18.2	21	39.7

'Annual Average

*NIEs are Singapore and Rep. of Korea; ASEAN includes Indonesia, Malaysia, Philippines and Thailand; South Asia is composed of India, Pakistan and Sri Lanka

Source: IMF, Balance of Payments Yearbook, various issues

TABLE 9: SHARES IN TOTAL US FDI OUTFLOWS (%)

	1985-87 *	1988-90*	1990	1991	1992
EU/EFTA	46.7	49.4	49.6	50.2	48.7
Japan	4.5	5.3	5.3	5.4	5.4
China	0.0	0.0	0.1	0.1	0.1
NIEs	3.0	3.3	3.3	3.8	4.3
ASEAN	2.8	1.9	1.8	1.9	2.1
South Asia	0.2	0.1	0.1	0.1	0.1
Latin America	10.5	16.3	16.6	16.5	18.3
ROW	32.3	23.7	23.2	22.0	21.0

'Annual Average

*NIEs are Hong Kong, Taiwan, Province of China, Singapore and Republic of Korea; ASEAN includes Indonesia, Malaysia, Philippines and Thailand; South Asia is composed of India, Pakistan and Sri Lanka

Source:US Department of Connerce, various issues

TABLE 10: SHARES IN TOTAL JAPANESE FDI OUTFLOWS (%)

	1985-87 *	1988-90*	1990	1991	1992
EU/EFTA	17.5	22.1	24.9	21.8	20.2
USA	44.6	47.2	45.9	43.3	40.5
China	2.3	0.6	0.6	1.4	3.1
NIEs	7.1	6.7	5.9	5.3	5.6
ASEAN	3.1	4.7	5.7	7.4	9.4
South Asia	0.1	0.1	0.1	0.1	0.5
Latin America	17.9	8.9	6.4	8.0	8.0
ROW	7.4	9.7	10.5	12.7	12.7

'Annual Average

*NIEs are Hong Kong, Taiwan, Province of China, Singapore and Republic of Korea; ASEAN includes Indonesia, Malaysia, Philippines and Thailand; South Asia is composed of India, Pakistan and Sri Lanka

Data for 1985-1992 are based on fiscal year ending March 31.

Source:Ministry of Finance, Japan

TABLE 11: SHARES IN TOTAL EU FDI FLOWS (%)

	1985-87 *	1988-90*	1990	1991
EU/EFTA	33.7	54.7	70.8	61.8
North America	49.9	30.2	16.4	17.6
Japan	0.7	0.9	1.4	0.7
Developing Asia*	2.2	1.7	1.2	2.7
Latin America	5.9	4.8	6.9	5.0
ROW	7.6	7.7	3.3	12.2

*Annual Average

*"Developing Asia" includes China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, Taiwan, Province of China, Thailand, other Asian countries

Data for 1985-1992 are based on fiscal year ending March 31.

Source: OECD, 1993

TABLE 12: SECTORAL DISTRIBUTION OF FDI (STOCK) IN ASIA, 1989 (%)

	Primary	Manufacturing	Services
Bangladesh	25	34	41
China	13	48	40
Hong Kong	0	26	74
India	6	89	5
Indonesia	82	15	3
Malaysia	28	41	31
Nepal	50	37	13
Pakistan	12	39	49
Papua New Guinea	60	11	29
Philippines	29	49	22
Republic of Korea	1	62	37
Singapore	0	42	58
Sri Lanka	10	32	58
Taiwan, Province of China	0	88	12
Thailand	9	43	48
Vietnam	68	13	19
AVERAGE	24	42	34

Source: United Nations Centre on Transnational Corporations, World Investment Directory 1992. Foreign Direct Investment, Legal Framework and Corporate Data. Vol 1, Asia and the Pacific (New York 1992)

TABLE 13: SHARES IN US TOTAL IMPORTS, 1993 (%)

Trade partner	1987	1993
Developing Asia	20	23
Canada	17	19
EU	22	18
Japan	21	18
Mexico	5	7
Other Latin America	7	6
ROW	8	9

Source:IMF, Direction of Trade Statistics Yearbook, 1994

TABLE 14: SHARES IN TOTAL FDI OUTFLOWS OF TAIWAN, PROVINCE OF CHINA(%)

	1989	1990	1991	1992	1993
Asia	32	39	56	42	40
USA	54	28	18	22	32
Europe	0	6	4	5	15
Others	14	27	22	31	13

Source: Taiwan Statistical Yearbook

TABLE 15: SHARES IN TOTAL FDI OUTFLOWS OF THE REPUBLIC OF KOREA (%)

	1989	1990	1991	1992	1993
Southeast Asia	23	31	38	43	39
North America	50	45	41	32	31
Europe	4	10	8	12	15
Others	23	14	13	13	15

Source: Bank of Korea, Economic Statistics Yearbook

TABLE 16: EXPORT STRUCTURE BY MAIN EXPORT CATEGORIES (%)

	Food	Agri-culture	Fuel	Ores	Chemicals	Other manufactures	Machinery	Others
SOUTH ASIA	***19***	***6***	***2***	***2***	***3***	***64***	***2***	***2***
Bangladesh	14	9	1		3	74	0	0
India	17	2	2	5	9	56	7	2
Pakistan	10	9	2	0	0	78	0	0
Sri Lanka	34	6	2	2	1	50	2	4
NIEs	***4***	***1***	***5***	***1***	***5***	***46***	***37***	***1***
Hong Kong	3	0	0	1	3	69	23	1
Republic of Korea	3	1	2	1	5	49	38	1
Singapore	6	2	17	2	7	18	48	1
Taiwan, Province of China	4	2	1	1	5	50	38	0
ASEAN 4	***17***	***6***	***14***	***3***	***3***	***30***	***19***	***8***
Indonesia	11	5	39	4	3	36	2	
Malaysia	11	11	16	2	2	21	38	0
Philippines	19	2	2	6	4	22	14	32
Thailand	27	5	1	1	3	41	22	1
CHINA	***12***	***3***	***7***	***2***	***6***	***51***	***19***	***1***
MEXICO	***12***	***2***	***37***	***6***	***7***	***12***	***25***	

Source:UNCTAD, Handbook of International Trade and Development Statistics 1992.

TABLE 17: AVERAGE MANUFACTURING LABOR COSTS, 1992 (US$ PER HOUR INCLUDING FRINGES)

COUNTRY	US$/HOUR
Singapore	5.00
Mexico	2.35
Malaysia	1.06
Philippines	0.60
Thailand	0.56
Indonesia	0.47

Source: SRI International, *Optimizing the Philippine Gains in Regional Free Trade Arrangements* (Manila 1994)

TABLE 18: EXPORTS OF SELECTED LATIN AMERICAN COUNTRIES, 1993

Country	Exports to US and Canada US$ million	Exports to Rest of the World US$ million	Share of Exports to US and Canada (%)
Mexico	39,706	7,526	84
Brazil	8,481	30,032	22
Venezuela	8,188	8,738	48
Colombia	3,076	4,377	41
Chile	1,717	7,835	18
Costa Rica	1,620	1,081	60
Ecuador	1,521	1,987	43
Argentina	1,270	11,752	10
Peru	822	2,642	24

Source: IMF, Direction of Trade Statistics Yearbook 1993 and 1994.

TABLE 19: SHARES OF APEC MEMBERS IN TOTAL REGIONAL TRADE (%)

	Exports		Imports	
	1992	1993	1992	1993
USA	24.4	23.9	33.5	34.5
NIEs[1/]	14.3	13.4	19.3	17.7
Japan	21.8	22.4	12.7	12.3
Canada	10.5	10.5	9.7	9.7
ASEAN	11.9	12.4	12.8	13.7
China	9.3	9.8	3.7	4.3
Aus/NZ	3.5	3.3	3.1	3.0
Mexico	3.6	3.7	4.6	4.3
Others	0.5	0.6	0.6	0.5
TOTAL	100.0	100.0	100.0	100.0

1/ Hong Kong, Republic of Korea and Taiwan Province of China.

Source: USO, COMTRADE.

TABLE 20: SHARE OF TRADE FLOWS IN TOTAL REGIONAL TRADE (in per cent of imports of both partners)

	1992	1993
US-Canada	16.1	16.3
US-Japan	13.6	13.4
US-NIEs[1/]	8.7	8.0
Japan-NIEs	7.6	7.2
NIEs-China	6.5	5.8
US-Mexico	7.3	7.2
Japan-ASEAN	5.6	5.8
NIEs-ASEAN	4.1	4.1
Intra-NIEs	2.1	2.0
US-ASEAN	6.0	6.3
Japan-China	2.7	3.5
Japan-Aus/NZ	1.6	1.5
Intra-ASEAN	2.8	3.0
US-China	3.2	3.6
US-Aus/NZ	1.5	1.3
Japan-Canada	1.5	1.3
Intra-AUS/NZ	0.3	0.3
Others	8.8	9.4
TOTAL	100.0	100.0

1/ Hongkong, Republic of Korea, Taiwan Province of China

Source: UNSO, COMTRADE.

TABLE 21: SHARES IN APEC MEMBERS' TOTAL TRADE, 1993 (in percentage of imports from world)

IMPORTS FROM	ASEAN	NAFTA	Japan /NIEs	China	AUS/NZ	EU	Others	TOTAL
ASEAN	17	16	36	3	3	15	10	100
NAFTA	6	37	22	5	1	16	13	100
China	6	12	50	0	2	15	15	100
East Asia	7	22	21	14	4	13	19	100
AUS/NZ	7	23	25	4	5	22	19	100

Source: UNSO, COMTRADE.

TABLE 22: SHARES IN TOTAL FDI IN APEC (%)

	APEC	EU	Others
1980	34	44	22
1985	37	42	21
1989	39	42	19
1991	54	29	17

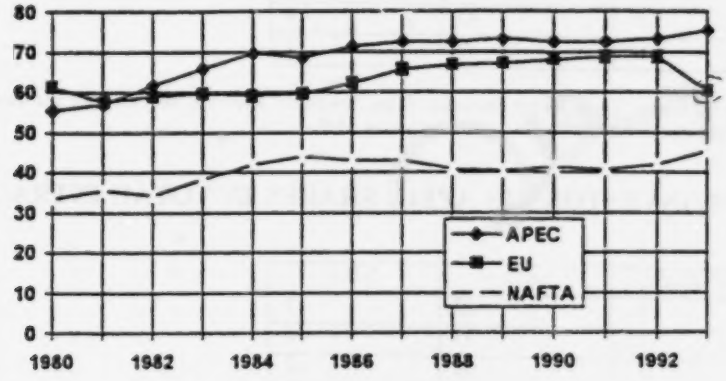
Source: Follow-up of APEC Report, Vision for the Economies of the Asia-Pacific Region in the Year 2000 and Tasks Ahead, Report to the Ad Hoc Group of Economic Trends and Issues, APEC, September 1993.

TABLE 23: TOP INVESTORS IN APEC: SHARES IN TOTAL INTRA-APEC FDI FLOWS(%)

	US/Canada	Japan	NIEs
1980	67	22	6
1985	15	57	16
1989	17	69	12
1990	30	23	25
1991	23	43	30

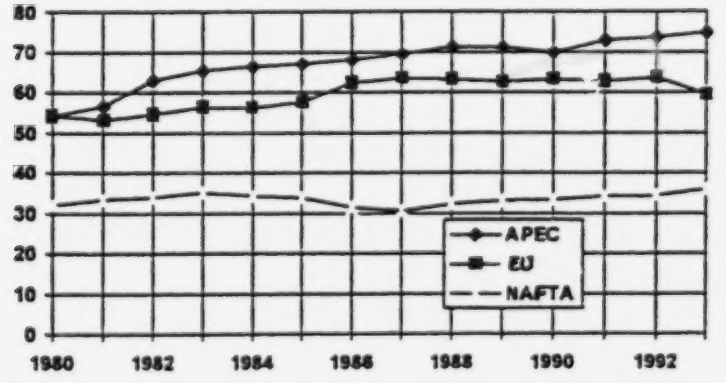
Source: Follow-up of APEC Report, Vision for the Economies of the Asia-Pacific Region in the Year 2000 and Tasks Ahead, Report to the Ad Hoc Group of Economic Trends and Issues, APEC, September 1993.

FIGURE 1: SHARE OF INTRA-REGIONAL EXPORTS IN TOTAL EXPORTS: EU, NAFTA AND APEC, 1980-93 (%)



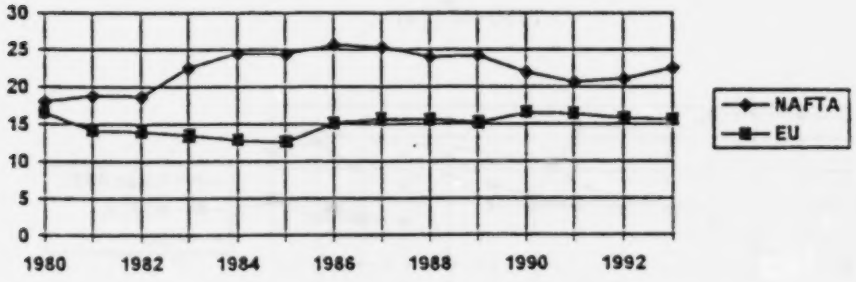
Source: IMF, Direction of Trade Statistics, various years

FIGURE 2: SHARE OF INTRA-REGIONAL IMPORTS IN TOTAL IMPORTS: EU, NAFTA AND APEC, 1980-93 (%)



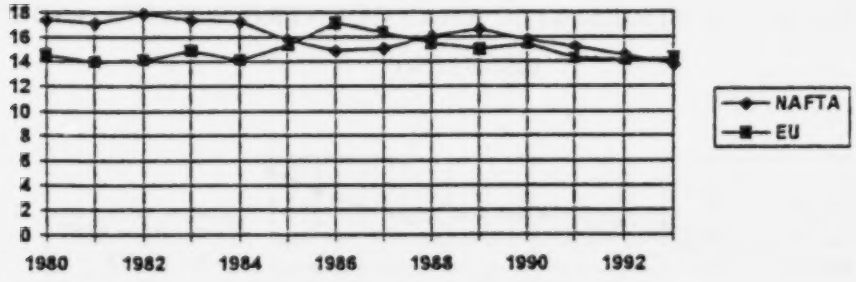
Source: IMF, Direction of Trade Statistics, various years

FIGURE 3: SHARE IN TOTAL EXPORTS OF ASIAN DEVELOPING COUNTRIES: NAFTA AND EU, 1980-93 (%)



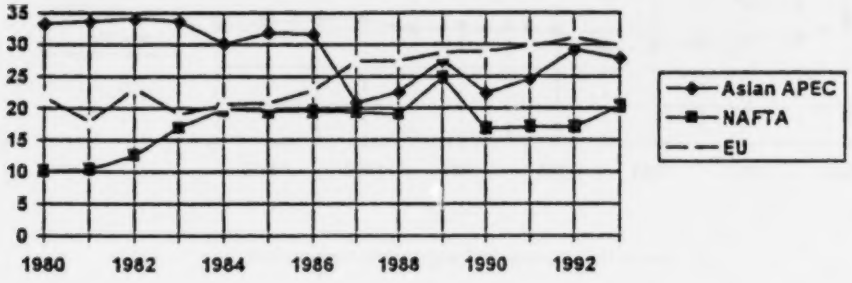
Source: IMF, Direction of Trade Statistics, various years

FIGURE 4: SHARE IN TOTAL IMPORTS OF ASIAN DEVELOPING COUNTRIES: NAFTA AND EU, 1980-93 (%)



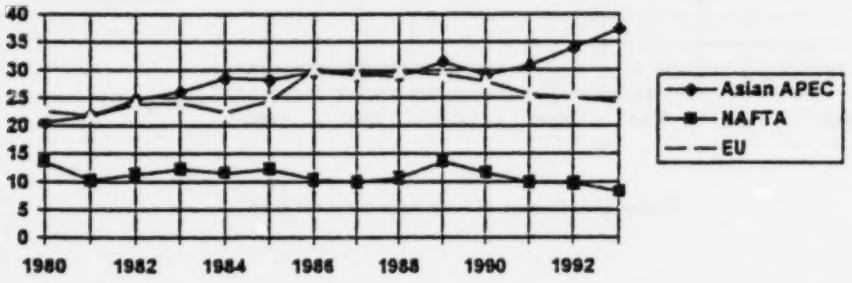
Source: IMF, Direction of Trade Statistics, various years

FIGURE 5: SHARE IN TOTAL EXPORTS OF NON-APEC ASIAN DEVELOPING COUNTRIES: APEC ASIAN COUNTRIES, NAFTA AND EU, 1980-93 (%)



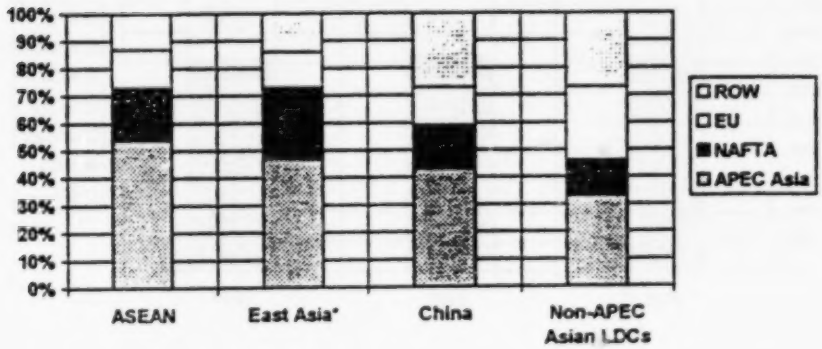
Source: IMF, Direction of Trade Statistics, various years

FIGURE 6: SHARE IN TOTAL IMPORTS OF NON-APEC ASIAN DEVELOPING COUNTRIES: APEC ASIAN COUNTRIES, NAFTA AND EU, 1980-93 (%)



Source: IMF, Direction of Trade Statistics, various years

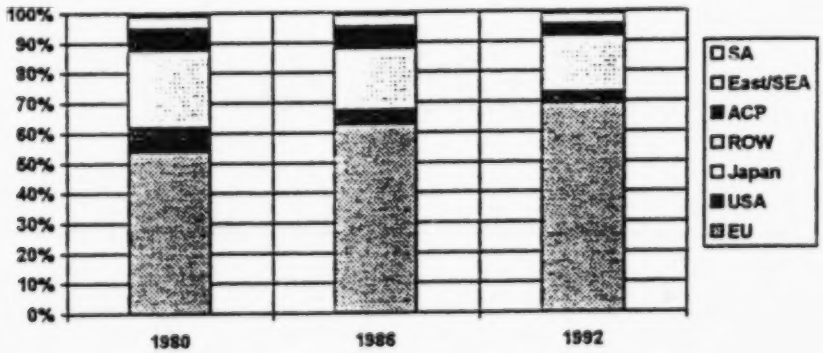
FIGURE 7: SHARE IN TOTAL TRADE, 1980-93 (%)



*East Asia is composed of Japan, Rep. of Korea, Taiwan, Prov. of China and Hong Kong

Source: IMF, Direction of Trade Statistics, various years

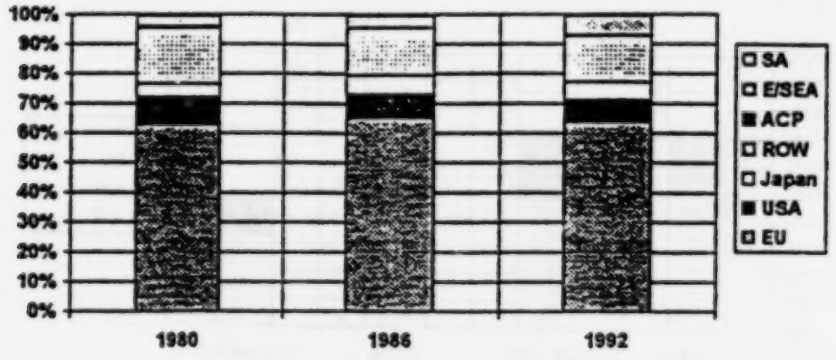
FIGURE 8: REGIONAL STRUCTURE OF EU AGRICULTURAL IMPORTS



*East and Southeast Asia (E/SEA) is composed of the following countries: Hong Kong, Singapore, Republic of Korea and Taiwan, Province of China, Indonesia, Malaysia, Philippines and Thailand: SA (South Asia) is composed of Bangladesh, India, Nepal, Pakistan, Sri Lanka

Source: Statistical Office of the European Communities, Monthly EEC External Trade (Combined Nomenclature), CTC 1-5-Pays-Produits, SCE-2311, CD-ROM, various issues

FIGURE 9: REGIONAL STRUCTURE OF EU MANUFACTURED IMPORTS



*East and Southeast Asia (E/SEA) is composed of the following countries: Hong Kong, Singapore, the Republic of Korea, and Taiwan, Province of China, Indonesia, Malaysia, Philippines and Thailand; SA (South Asia) is composed of Bangladesh, India, Nepal, Pakistan, Sri Lanka

Source: Statistical Office of the European Communities, Monthly EEC External Trade (Combined Nomenclature), CTC 1-5-Pays-Produits, SCE-2311, CD-ROM, various issues

FIGURE 10
EXPORT STRUCTURE BY REGION

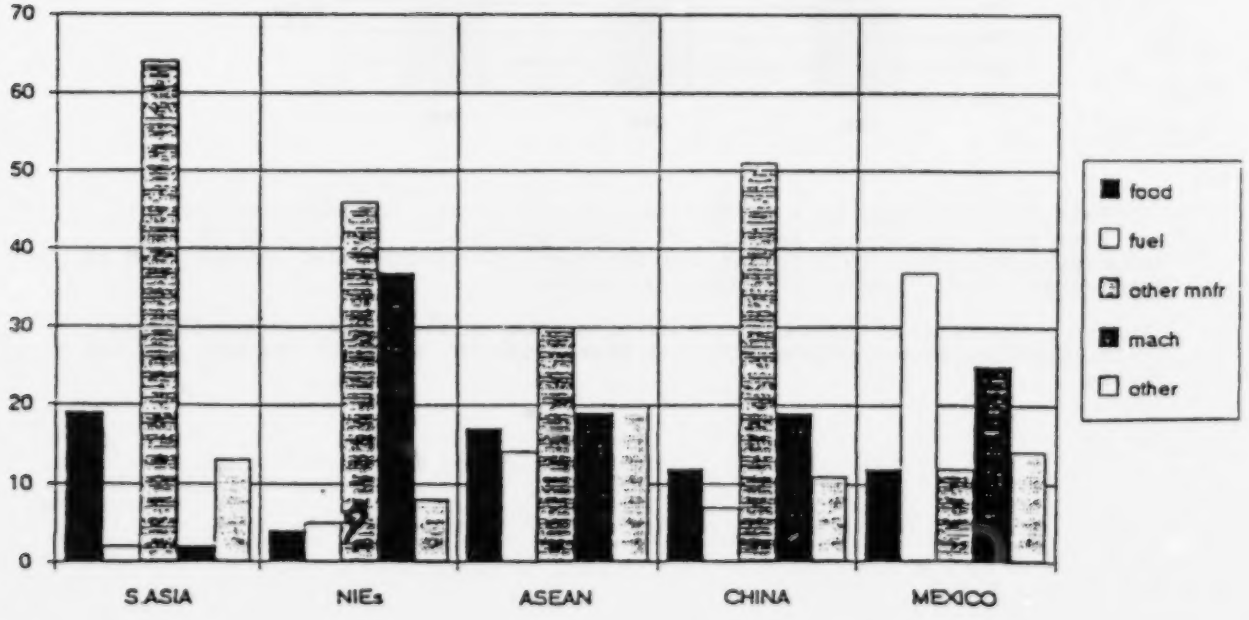
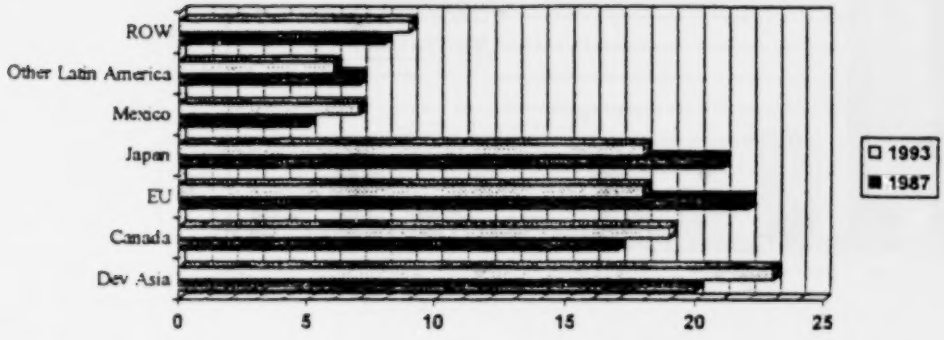
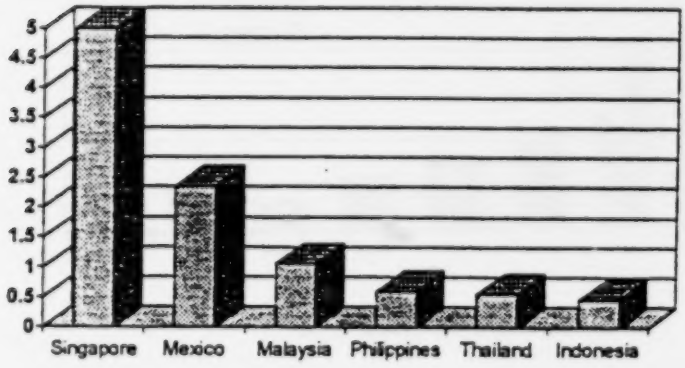


FIGURE 11: SHARES IN US TOTAL IMPORTS, 1993 (%)



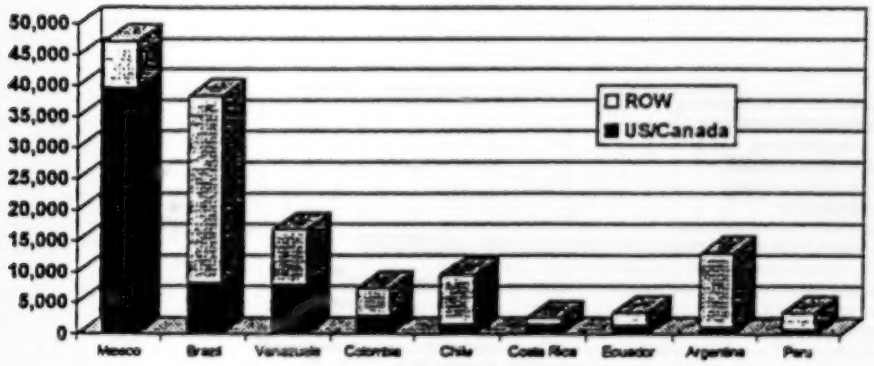
Source:IMF, Direction of Trade Statistics Yearbook, 1994

FIGURE 12: AVERAGE MANUFACTURING LABOR COSTS, 1992 (US$ PER HOUR INCLUDING FRINGES)



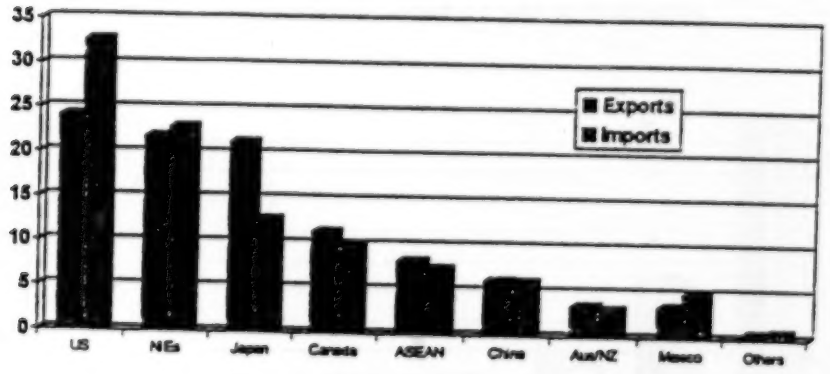
Source: SRI International, *Optimizing the Philippine Gains in Regional Free Trade Arrangements* (Manila 1994)

FIGURE 13: EXPORTS OF SELECTED LATIN AMERICAN COUNTRIES, 1993



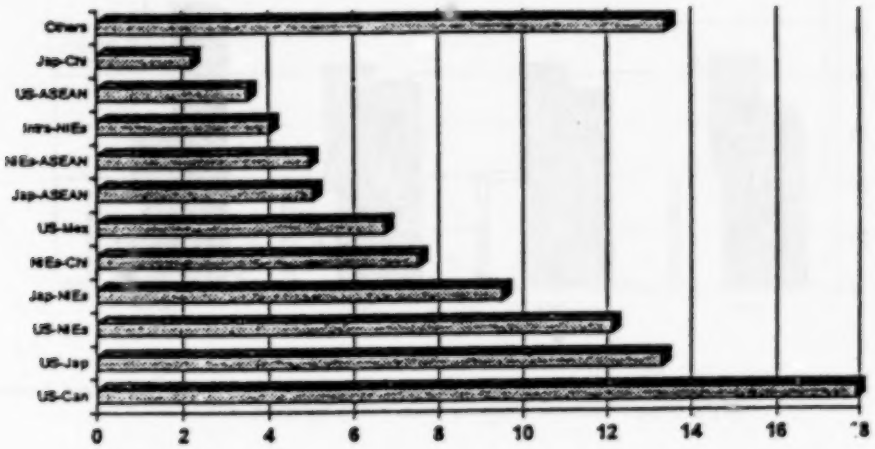
Source: IMF, Direction of Trade Statistics Yearbook 1993

FIGURE 14: SHARES OF APEC MEMBERS IN TOTAL REGIONAL TRADE (%)



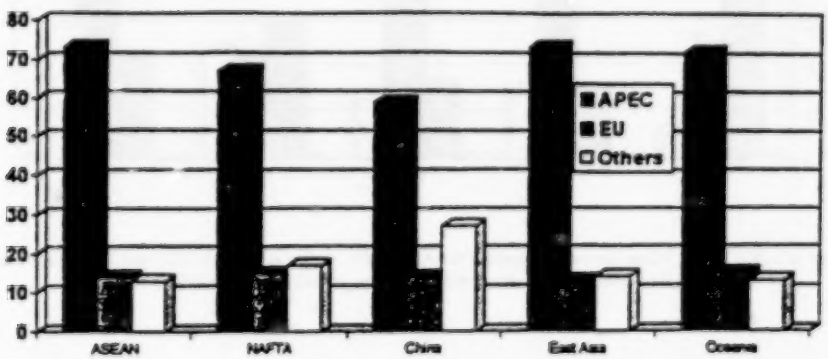
IMF, Direction of Trade Statistics Yearbook, 1993

FIGURE 15: SHARE OF TRADE FLOWS IN TOTAL REGIONAL TRADE, 1992 (%)



IMF, Direction of Trade Statistics Yearbook, 1993

FIGURE 16: SHARES IN APEC MEMBERS' TOTAL TRADE, 1993 (%)

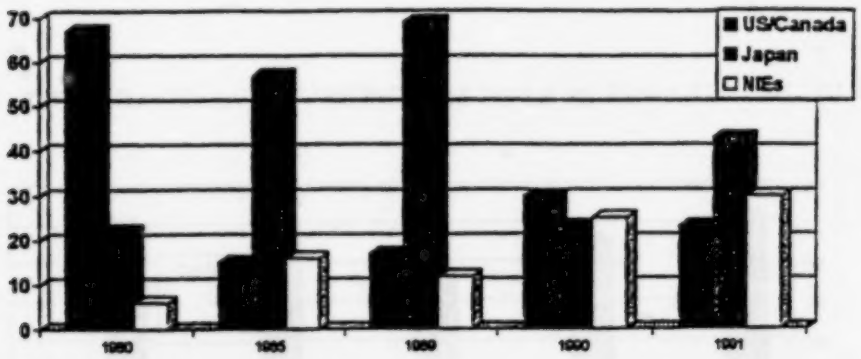


IMF, Direction of Trade Statistics Yearbook, 1994

FIGURE 17: SHARES IN TOTAL FDI IN APEC (%)

Source: Follow-up of APEC Report, Vision for the Economies of the Asia-Pacific Region in the Year 2000 and Tasks Ahead, Report to the Ad Hoc Group of Economic Trends and Issues, APEC, September 1993.

FIGURE 18: TOP INVESTORS IN APEC: SHARES IN TOTAL INTRA-APEC FDI FLOWS(%)



Source: Follow-up of APEC Report, Vision for the Economies of the Asia-Pacific Region in the Year 2000 and Tasks Ahead, Report to the Ad Hoc Group of Economic Trends and Issues, APEC, September 1993.